Compensation to a market-competitive and reasonable level. Therefore, the target value of Incentive Compensation is a critical component of the market-competitive Total Compensation package, which the Companies uses to attract and retain qualified employees.

III. ACTIONS TO CONTROL COMPENSATION EXPENSE

Q. HOW DO THE COMPANIES' BASE PAY INCREASES COMPARE TO THOSE OF OTHER UTILITY INDUSTRY EMPLOYERS?

A. The Companies' total Base Pay increases for employees other than those in hourly physical, craft, and technical positions lagged the market median rate of Base Pay increases over the period 2009 through 2020, particularly for executive positions, as Table 1 below demonstrates. This lag is primarily the result of a salary freeze in 2009 for most positions and in 2009 and 2010 for executive positions. The Companies implemented this salary freeze in response to the Great Recession that began in 2008. Table 1 below compares the Companies' salary increase budgets to median utility industry Base Pay increase budgets for employees other than those in hourly physical, craft, and technical positions for the years 2009 through 2020 (projected).

Table 1

	Nonexempt Salaried		Exempt		Executive	
	Industry*	Companies	Industry*	Companies	Industry*	Companies
2009	2.75%	0.00%	2.50%	0.00%	2.00%	0.00%
2010	2.70%	2.00%	3.00%	2.00%	2.95%	0.00%
2011	3.00%	3.20%	2.90%	3.20%	3.00%	3.20%
2012	2.75%	2.68%	3.00%	2.68%	3.00%	2.68%
2013	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2014	3.00%	3.35%	3.00%	3.35%	3.00%	3.35%
2015	3.00%	3.50%	3.00%	3.50%	3.00%	3.00%
2016	3.00%	3.50%	3.00%	3.50%	3.00%	3.00%

2017	3.00%	3.50%	3.00%	3.50%	3.00%	3.50%
2018	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
2019	3.00%	3.50%	3.00%	3.50%	3.00%	3.50%
2020**	3.00%	3.50%	3.00%	3.50%	3.00%	3.50%
Total	35.20%	34.73%	35.40%	34.73%	34.95%	31.73%
Difference		-0.47%		-0.67%		-3.22%
*The Conference Board Research Report, U.S. Salary Increase Budgets for 2010-2020 **Projected 2020 market median vs. the Companies' 2020 actual salary increase budget which was implemented as budgeted and resulted in salary increases effective April 1, 2020						

For hourly physical, craft, and technical employees, Base Pay increases also lagged the market during this period. Table 2 below shows that for the period 2009 through 2019 (projected), the Companies' Base Pay increases for hourly physical, craft, and technical employees lagged the market median by 1.75%.

Table 2		
	Hourly Physical, Craft, and Technical Employees	
Year	Utility Industry Market Median*	Companies
2009	2.50%	0.00%
2010	2.85%	2.00%
2011	2.90%	3.00%
2012	3.00%	2.00%
2013	3.00%	2.50%
2014	3.00%	2.50%
2015	3.00%	3.50%
2016	3.00%	3.50%
2017	3.00%	5.00%
2018	3.00%	2.50%
2019	3.00%	3.50%
2020**	3.00%	3.50%
Total	35.25%	33.50%
Difference		-1.75%
* The Conference Board Research Report, U.S. Salary Increase Budgets for 2010-2020 **Projected 2020 market median vs. the Companies 2020 collectively bargained 2020 wage increases.		

These tables show that the Companies' Base Pay increase budgets substantially lagged the market median in 2009 and 2010 and have yet to make up the lost ground.

Reducing the growth of employee salaries during times of pervasive and substantial economic distress is one of several difficult steps that the Companies' management and employees have taken to control labor expense. The impact of these decisions is still seen, as the above tables show, in the Companies' Base Pay levels for all types of employees to this day. These actions, along with continued employee teamwork and commitment, directly reduced the cost of providing electric service to SWEPCO customers and the savings that remain will again be passed on to Texas customers as part of this rate proceeding.

Q. DID THE COMPANIES IMPLEMENT SALARY AND WAGE INCREASES FOR ALL CLASSES OF EMPLOYEES IN 2020?

A. Yes. As noted in Tables 1 and 2 above, the Companies implemented 3.50% salary increases effective April 1, 2020 and have implemented or are contractually committed to implement Base Pay increases effective on collectively bargained dates throughout the remainder of the year. All of these increases were collectively bargained or, for merit based employees, determined and approved before there was any known impact from COVID-19.

IV. COMPETITIVENESS OF TOTAL COMPENSATION

Q. SHOULD BOTH BASE PAY AND INCENTIVE COMPENSATION BE CONSIDERED IN ASSESSING THE REASONABLENESS OF COMPENSATION FOR RATE SETTING PURPOSES?

A. Yes, all statistically significant forms of compensation should be considered, irrespective of the form compensation takes, be it a mix of Base Pay and Incentive

Compensation or 100% Base Pay. The Companies compete for employees with a great many other employers, the majority of which offer Incentive Compensation to the employees over which we compete. The PUCT should look to whether Total Compensation is within a market-competitive range because such competitive compensation is needed to attract and retain employees with the knowledge, experience, and qualifications needed to provide reliable electric services to customers efficiently, effectively and safely, while minimizing overall expense.

Although reducing Total Compensation to less than the market-competitive range would reduce compensation expenses, this cost reduction would likely be more than offset by increased hiring and training expenses due to increased employee turnover, as well as lower employee productivity, given the many years it often takes new employees to learn to perform their jobs safely, efficiently, and effectively. This is particularly true for positions that require lengthy apprenticeships to learn the skills needed to work independently and safely, such as the lineman job family, which requires five years to reach the journeyman level. In addition, it generally takes 30-60 days to fill vacant positions and much longer for new employees to come up to speed on new duties, work processes and safety procedures. This lost or reduced productivity often must be backfilled by employees who are less efficient at it, such as employees who normally perform other duties, or who are more expensive, such as the vacant position's supervisor. Employee turnover gives rise to many other incremental costs beyond the examples cited above. The incremental cost and reduced service quality that results from increased employee turnover are the reasons that the provision of market-competitive Total Compensation is in the interests of SWEPCO's Texas customers.

Q. HOW DOES TARGET TOTAL COMPENSATION FOR HOURLY PHYSICAL, CRAFT, AND TECHNICAL POSITIONS COMPARE WITH MARKET DATA?

A. As shown in EXHIBIT ARC-3, SWEPCO's average target TCC for 324 hourly physical, craft, and technical positions in 18 different SWEPCO jobs was 5.3% below the market median as of March 31, 2020.[1] Assuming a market-competitive compensation range of +/- 10% of the survey median, which is typical practice for such positions, this shows SWEPCO's average target TCC is within but in the lower half of the market-competitive range. However, target TCC for 22.2% of these positions was below the market-competitive range, and none was above the market-competitive range. This clearly shows that SWEPCO's Target Total Compensation for these positions, which includes the incentive portion, was reasonable relative to market-competitive Total Compensation. For collective bargaining positions, the Target level is the amount requested in the Company's cost of service in this case.

Comparing Base Pay to market TCC further confirms that the Company's TCC, inclusive of STI, is market competitive. If STI were excluded (*i.e.*, comparing the Company's Base Pay to market TCC) as shown by the graph in EXHIBIT ARC-3, then a third of the Company's jobs would be below the market-competitive range and the Company's average compensation would be 10.5% below the market median, which is also below the market competitive range.

[1] Data source: EAPDIS, LLC, 2019 Energy Technical Craft Clerical Survey – ETCCS.

Q. ARE THERE DISCIPLINES FOR WHICH MARKET-COMPETITIVE TOTAL COMPENSATION IS INCREASING FASTER THAN FOR OTHER POSITIONS?

A. Yes, certainly. One recent example is the vegetation management discipline, for which compensation increased 3.7% for 2019, compared with 2.0% for other craft positions. The increased compensation growth rate for this discipline has implications for both the compensation for some SWEPCO employees and SWEPCO's cost for outsourced contract forestry work. Employers often have little choice but to react to labor supply shortages by increasing the compensation they pay for employees that are in short supply. Cyber-security and data science are two other examples of disciplines for which compensation has been increasing at significantly higher than average rates.

Q. HOW DOES TARGET TOTAL COMPENSATION FOR SALARIED NONEXEMPT POSITIONS COMPARE WITH MARKET DATA?

A. EXHIBIT ARC-4 indicates that, on average, SWEPCO's target TCC for 37 salaried nonexempt positions with 718 employees is near the middle of the market-competitive range. However, similar to the compensation for hourly employees and consistent with the Companies' Total Compensation design, STI is an integral component of the market-competitive Total Compensation Opportunity for these employees. If STI is excluded, as shown by the graph in EXHIBIT ARC-4, then the average target TCC for these positions would be 5.4% below the market median and 35% would be paid below the market-competitive range.

Q. HOW DOES TARGET TOTAL COMPENSATION FOR NON-MANAGERIAL EXEMPT POSITIONS COMPARE WITH MARKET DATA?

A. EXHIBIT ARC-5 compares the Company's compensation for non-managerial exempt positions to market survey information[2] using a slightly broader +/- 15% of market median as the market-competitive range, which is typical for exempt positions. The average target TCC for these positions was also close to the market median but, if STI were excluded, as shown by the graph in EXHIBIT ARC-5, then the average target TCC for these 288 positions with 3,082 employees would be 11.4% below the market median and 35% of these positions would be paid below the market-competitive range.

Q. HOW DOES TARGET TOTAL COMPENSATION FOR EXECUTIVE POSITIONS COMPARE WITH MARKET DATA?

A. The Human Resources Committee of AEP's Board of Directors (HR Committee) annually engages a nationally recognized, independent executive compensation consulting firm to conduct a compensation study of the Companies' executive positions. The peer group used for this study consists of companies specifically selected by the HR Committee to represent the talent markets within which the Companies must compete to attract and retain senior management and executive employees. For the 2019 study, executive compensation was market-competitive overall for the 15 executive positions included in their analysis whose compensation is billed to SWEPCO (See EXHIBIT ARC-6). However, as shown in the graph in EXHIBIT ARC-6, Total Compensation would be below the market-competitive range for 100% of these executive positions without either the STI or LTI portions of their total

[2] Sources: Willis Towers Watson 2019 Energy Services Middle Management & Professional Survey and Willis Towers Watson 2019 General Industry Middle Management & Professional Survey, April 2019.

compensation and, obviously, even further below without both of these types of incentive compensation.

Q. IS THE COMPENSATION OPPORTUNITY THAT THE COMPANIES' INCENTIVE COMPENSATION PROVIDES NECESSARY FOR ATTRACTING AND RETAINING SUITABLE EMPLOYEES?

A. Yes. EXHIBITs ARC-3 through ARC-6 show that the total compensation offered to employees for all types of positions is both reasonable and market-competitive. They also show that without the target value of Incentive Compensation, the compensation opportunity that the Companies provide to employees would not be market-competitive in many cases. For higher-level management and executive positions, the portion of compensation provided by STI and LTI compensation is necessary, both individually and in combination, to maintain any semblance of market-competitive total compensation for these positions. It is likely that, without the compensation opportunity that Incentive Compensation provides, the Companies would experience increased turnover among all categories of employees and potentially problematic turnover for the many positions for which the average TCC would then be below the market-competitive range. Turnover becomes problematic when the Companies cannot retain sufficiently skilled and experienced employees or a sufficient number of employees to provide service efficiently, effectively and safely to customers, resulting in longer outages and increased costs to customers. This shows that the portion of compensation provided by STI for all types of employees is necessary to maintain the competitiveness of the Companies' Total Compensation for these positions. As such, the target expense associated with the Companies' incentive compensation for all types of positions, irrespective of the form in which it is provided, is a necessary, reasonable, and appropriate cost of doing business.

Q. DOES ANY PORTION OF THE COMPENSATION THAT THE COMPANY IS REQUESTING TO RECOVER EXCEED THE AMOUNT THAT IS REQUIRED TO PROVIDE MARKET-COMPETITIVE COMPENSATION TO EMPLOYEES?

A. No. As EXHIBITs ARC-3 through ARC-6 show, the target STI and LTI compensation components of total compensation are not a 'bonus' that provides compensation in excess of market-competitive total compensation. Rather, such Incentive Compensation is a critical element of a reasonable, necessary, and prudent market-competitive total compensation package.

Q. ARE BOTH BASE PAY AND INCENTIVE COMPENSATION PART OF AN OVERALL REASONABLE LEVEL OF TOTAL COMPENSATION?

A. Yes. As shown for each group of employees in the preceding questions, the Total Compensation for all types of positions is within the market competitive range, which is a reasonable level of compensation for the Companies and its customers.

V. THE BENEFITS OF INCENTIVE COMPENSATION

Q. WHAT ARE THE BENEFITS TO SWEPCO TEXAS CUSTOMERS OF THE COMPANIES' INCENTIVE COMPENSATION?

A. First and foremost, the Companies' STI and LTI compensation benefits customers by enabling the Companies to attract and retain the suitably skilled and experienced employees needed to provide service to customers efficiently, effectively and safely. The ability to attract and retain such a workforce is, quite simply, essential to meeting customers' needs at a reasonable cost. Without the compensation opportunity that the Companies' Incentive Compensation provides, as shown in EXHIBITs ARC-3 through ARC-6, the Total Compensation for many positions would be below the market-competitive range, which would impair the Companies' ability to attract and retain such employees, increase employee turnover, and reduce employee engagement. This, in turn, would increase hiring and training costs, reduce productivity, result in declining service levels, and increase the cost of service for customers.

Because the Companies' Incentive Compensation is a component of a reasonable and market-competitive Total Compensation package (*i.e.* within the market-competitive range), it has no incremental cost above the cost of providing market-competitive compensation through Base Pay alone.

Incentive Compensation also helps maintain higher levels of employee and company performance than would be achieved with Base Pay alone. It does this by linking a portion of employees' total compensation opportunity to performance without increasing the Companies' compensation expense.

Q. HOW DOES INCENTIVE COMPENSATION IMPROVE EMPLOYEE AND COMPANY PERFORMANCE?

A. Incentive compensation improves employees' and the Companies' performance by more effectively communicating goals and objectives, better aligning employee efforts with these goals and objectives, more effectively engaging employees, and motivating employees to achieve higher levels of performance. Specifically, incentive compensation helps create a culture of high performance by:

- Giving all employees a personal stake in achieving common goals and objectives, which creates a sense of shared purpose and improves employee engagement;
- Communicating goals and objectives to all managers and employees more effectively than is otherwise possible, which helps align and focus work assignments and employee efforts with these objectives;
- Encouraging and motivating employees to expend discretionary effort to achieve these goals and objectives;
- Varying compensation based on individual employee performance, which recognizes and appropriately adjusts rewards for both strong and poor employee performance, which improves employee engagement, and encourages performance improvement;
- Rewarding employees for achievement of the Companies' goals and objectives, which reinforces the importance of these goals and objectives, recognizes both high and low performance and improves employee engagement;
- Shifting a portion of compensation from a fixed expense to variable expense, which reduces business risk by linking a portion of labor expense to the Companies' financial performance; and
- Encouraging high levels of productivity and fostering careful cost management.

These specific benefits of incentive compensation significantly reduce the cost of service for SWEPCO's Texas customers below what they would be otherwise.

Q. DO THE GAINS PRODUCED BY INCENTIVE COMPENSATION RESULT IN AN ACCUMULATION OF BENEFITS AND COST SAVINGS THAT ACCRUE TO SWEPCO TEXAS CUSTOMERS EACH YEAR?

A. Yes. The Companies' STI and LTI compensation programs have been in place for more than two decades, and these programs have produced benefits that inured to customers in base rate cases over these many years. These benefits are generally the result of the high performance culture that the Companies' incentive compensation encourages. The accumulated value that has been produced over the more than two decades that these programs have been in place was reflected in the Companies' cost of service in the test years for prior base rate cases and is reflected in the cost of service in this case. The decades of accumulated value produced by Incentive Compensation has inured to customers through lower rates in prior rate proceedings and any additional value it has created since the last base rate case will again inure to customers when rates are established in this case. These benefits gradually accumulated over time and would likely diminish over time if incentive compensation were eliminated. Such 'back-sliding' would be detrimental to SWEPCO Texas customers.

Q. SHOULD IT BE EXPECTED THAT THE INCREMENTAL PRODUCTIVITY BENEFITS AND COST SAVINGS GENERATED BY INCENTIVE COMPENSATION WILL EXCEED ITS TOTAL (INCREMENTAL AND NON-INCREMENTAL) COST?

A. No. Although the Companies' Incentive Compensation provides substantial benefits, as I just described, it is unreasonable to expect that the new incremental productivity benefits and cost savings generated each year will offset its cost. This is because the Companies' Incentive Compensation is a component of a reasonable and market-competitive Total Compensation program, rather than a 'bonus' that is additional to such a program. Therefore, the Companies' Incentive Compensation has no incremental cost and produces the substantial incremental benefits previously described at no incremental expense to customers. Furthermore, the Companies' Incentive Compensation has been in place for more than two decades and maintaining it prevents gradual backsliding on the benefits that have accumulated because of incentive compensation over these many years.

As has been shown, the target level of the Companies' Incentive Compensation provides substantial benefits to customers at no incremental cost above the cost of providing market-competitive Total Compensation through Base Pay alone. Therefore, the related expense is clearly a prudent and reasonable cost of doing business. Customers already benefit from the accumulated value that Incentive Compensation has provided over the decades it has been in place and it is clear that customers are the primary beneficiaries of the Companies' Incentive Compensation. It is highly inappropriate, unsustainable and unjust for shareholders to bear a large portion of the cost of the target level of Incentive Compensation, as well as 100% of any above target expense, while customers receive 100% of the benefits Incentive Compensation has created over the decades it has been in place. Although SWEPCO is following the Commission's policy by removing financially based incentive compensation and 50% of any financially based funding mechanism from its rate request, it does not agree with that policy as established for SWEPCO in Docket No. 46449 and hopes that it will be revised by the legislature during the course of this case. In the event of such a change in law, SWEPCO requests full recovery of its incentive compensation expense in accordance with the new law.

A. Short-Term Incentive (STI) Compensation

Q. HOW COMMON IS STI COMPENSATION IN THE UTILITY INDUSTRY?

A. It is a highly prevalent form of compensation. It is provided by the majority of employers for physical and craft positions and is nearly universally provided to higher-level positions both in the electric utility industry and in U.S. industry in general. The compensation analyses contained in EXHIBITs ARC-3 through ARC-6 shows that market median Total Compensation includes incentive compensation for 100% of the 367 positions and 4,148 incumbent employees included in these market compensation analyses. In addition, median target STI Compensation was at least 5% of base salary for positions at all base salary levels in the energy services industry, including positions with base salaries of less than $30,000 (Willis Towers Watson, 2019 Energy Services Middle Management, Professional and Support Survey Report - U.S., Actual Bonus/Target Bonus Percent Summary Table, Incumbent Weighted Statistics). This survey analysis is very robust, including over 120 Energy Services Industry employers and over 196,000 incumbent employees. The nearly universal use of STI compensation by energy services industry employers clearly shows that, at a minimum, these employers believe that STI compensation is superior to the alternative of providing market-competitive compensation through base pay alone.

Q. DOES STI COMPENSATION PROVIDE ADDITIONAL SPECIFIC BENEFITS?

A. Yes. SWEPCO's STI plan includes goals that encourage safety, proactive safety activities, employee diversity, manager accountability for company culture improvement, high power quality and reliability, strong customer communications, outage restoration process improvements, wires reliability, completion of reliability work plans, load growth through energy conversion (i.e. electric vs. gas cooking) and economic development, engagement in rulemaking processes, overhead and underground line inspections, vegetation management, small wire replacement, and grid modernization and achievement of budgeted earnings expectations. These objectives align well with the interests of SWEPCO's Texas customers and the Texas communities SWEPCO serves.

Q. PLEASE DESCRIBE THE COMPANIES' STI PLANS.

A. All the Companies' employees from hourly positions through executive management, except co-ops and interns, participate in the Companies' STI program. The STI target for physical, craft, and technical positions is 5% of eligible earnings, which includes base wages, overtime, and shift premiums. The STI targets for salaried positions vary by salary grade level. The STI targets for each salary grade are set at levels that provide Total Compensation that is within the market-competitive range and as close to the market median on average as possible for the positions assigned to each grade level. This approach is typical for U.S. industrial companies.

The Companies use a standard plan design and template for all STI plans with separate plan documents, performance measures and communications for employees in each major AEP business unit and operating company. The overall performance score for each AEP business unit and operating company, including SWEPCO, determines the award payout for that group from the available funding (described in the following question and answer below). Overall performance scores and award payouts can range from 0% to 200% of the target. Employees in centralized functions, such as IT, human resources, and legal, do not have separate STI performance measures and participate in STI compensation based on the average overall performance score for the business units and operating companies that do have separate STI performance measures.

The Companies establish performance targets for STI measures at stretch but achievable levels to ensure that employees have a reasonable expectation that STI will pay out at or above the target level on average over multiple years. This expectation is foundational because, without it, many employees would not perceive their Total

Compensation opportunity to be market-competitive and employee attrition and retention likely would increase to problematic levels. However, most participants understand that STI compensation is variable and may vary both above and below target from year to year but can reasonably be expected to meet or exceed a target level on average over longer periods. The Companies' STI has averaged 154% of target over the last 5 years, which is well above the target level. It is the target level of STI that brings target Total Compensation to reasonable and market-competitive levels.

Q. PLEASE DESCRIBE HOW THE COMPANIES' STI COMPENSATION PLANS ARE FUNDED.

A. Prior to May 2020 the Companies used a balanced scorecard of performance measures for STI funding. The 2019-balanced scorecard included AEP operating earnings (70%), operations and maintenance (O&M) savings (4%) Safety and Compliance (10%), Infrastructure Investment (9%), Customer Experience and Quality of Service (4%), and Workforce of the Future and Culture (3%).

The overall funding available for AEP's total 2020 STI program is based entirely on AEP's Operating Earnings per Share. This was a temporary change made for 2020 only due to the financial volatility and rapidly changing business conditions resulting from COVID-19. STI funding is expected to revert to a balanced scorecard of operating objectives for 2021, which is consistent with the Companies' practice for 2019 and many prior years. The balanced scorecard of operating objectives remains important for the Companies and is continuing to be measured for potential discretionary adjustments to 2020 STI funding. Therefore, the Company's requested cost recovery and rate base reflects the historical 70% weight on AEP's operating earnings for determining STI compensation plan funding.

Q. WHAT IS THE PURPOSE OF THE FUNDING MECHANISM FOR STI COMPENSATION?

A. The funding mechanism ensures the Companies can afford employee incentive compensation while also meeting their commitments to other stakeholders and that STI compensation does not impair the Companies financially. The importance of such a mechanism becomes apparent when utilities are in financial distress. For example, PG&E needed to take extraordinary measures to eliminate incentive compensation while they were in financial distress, a decision the California Consumer Counsel agreed with, because their STI did not have a funding mechanism that adjusted the payout commensurate with their financial performance. Anyone who has ever managed their living expenses within a budget knows that it is not sustainable and is detrimental to their financial wellbeing to spend more than they can afford.

The funding mechanism also facilitates business unit and operating company goal setting by reducing its impact and shifting the focus to ensuring a consistent degree of difficulty among AEP's business units and operating companies. Tying STI funding to the Companies' financial performance also sends a clear message to participants that it is imperative for them to maintain financial discipline. This, in turn, enables the Companies to complete work at a lower cost than would otherwise be the case.

Q. PLEASE DESCRIBE HOW STI COMPENSATION FUNDS ARE ALLOCATED.

A. Each AEP operating company and business unit has a separate set of performance measures for determining STI payouts. Each operating company's and business unit's overall STI score is determined by its performance against its STI performance measures relative to the weighted average performance of all operating companies and business units. This relative performance determines each group's STI funding allocation from AEP's total STI funding. This is accomplished by normalizing the overall business unit and operating company scores, which simply means that each such score is divided by the weighted average of all such scores. This results in a normalized average score of 1.0 or 100% of the target level. Each business unit and operating company score is then multiplied by the funding score, which results in a weighted average score for AEP as a whole that is equal to the funding score, which allocates the available funding while maintaining differentiation based on relative performance. This process results in scores and payouts for each business unit and operating company that reflect the group's performance and a total payout that is equal to the overall funding available.

Q. WHAT ARE THE KEY DRIVERS OF STI COMPENSATION FOR SWEPCO EMPLOYEES?

A. Most SWEPCO employees (541) participate in the AEP Utilities 2020 ICP (incentive compensation plan) for SWEPCO employees. The key drivers of performance for this plan are three categories of operational measures (operational excellence, customer, and workforce development) that comprise 80% of the 2020 performance measures for SWEPCO, while financial performance (SWEPCO net income) makes up the remaining 20%. This plan includes 12 performance measures in four categories (see EXHIBIT ARC-7).

SWEPCO employees also participate in the 2020 STI plans for centralized staff (91), T&D Performance Management (13), and Generation - Environmental Services (1) groups. The centralized staff group ICP is based on the average score for all business units and operating companies. Each of the other plans has a similar balanced scorecard of performance measures with a heavy emphasis on operational performance. If SWEPCO employees do not achieve their operational performance objectives, they will not be paid a significant STI award, irrespective of AEP's or SWEPCO's financial performance.

Q. WHAT ARE THE BENEFITS TO CUSTOMERS FROM THE WORKFORCE DEVELOPMENT MEASURES IN THE STI PROGRAM?

A. The workforce development category includes safety, employee culture, diversity, and a line mechanic pipeline development performance measures. It is important to acknowledge with respect to safety that the cost of severe safety incidents to an individual and their families, friends, colleagues, and community is often immeasurable and outweighs the financial cost to the Company and its customers. Such societal costs are paramount in any evaluation of the cost of improving safety from a public policy perspective. With this said, the DART (Days Away, Restricted Duty and Transfer) rate and proactive safety measures included in the Companies' STI programs benefits customers by promoting safe work practices, reducing the number of recordable injuries, reducing serious injuries, reducing lost work days, reducing workers compensation costs, and reducing employee medical claims. The proactive safety measures encourage the involvement of employees at all levels in activities that help identify and mitigate safety risks. These measures foster a safety culture that is critical to reducing safety incidents. The Company's safety statistics have improved substantially over the many years the Companies' have had safety incentive measures, which we believe is the result of the Companies' safety culture, including its safety incentives.

The employee diversity measure benefits customers by providing a broader perspective and better engagement with the communities SWEPCO serves and by fostering better employee inclusivity, engagement, and performance, which improves employee retention and broadens the pool of prospective employees. These benefits improve customer service and reduce the cost of serving customers.

The accountability index measure helps create a culture where employees are more engaged in their work, feel appreciated and valued, and have a sense of ownership and accountability. Improving employee engagement has been shown to improve employee and company performance, which benefits customers by accomplishing more work with less resources, the savings from which are passed on to customers in rate case proceedings.

The line mechanic recruitment model measure benefits customers by leveraging line mechanic training colleges to create a pipeline for C100 certified candidates to fill SWEPCO line mechanic positions in Texas and other AEP locations. C100 line mechanics need substantially less apprenticeship and training than entry-level line mechanics, which saves customers the cost of providing such training, and C100 level line mechanics can safely contribute immediately on some types of work, which is not the case for entry-level line mechanics. C100 line mechanics from training colleges are also more likely to progress to the journey level. These benefits reduce hiring, training, and turnover related expenses for SWEPCO customers.

Q. WHAT ARE THE BENEFITS TO CUSTOMERS FROM THE CUSTOMER MEASURES IN THE STI COMPENSATION PROGRAM?

A. The JD Power – Power Quality & Reliability (PQR) and Power Communications measures benefit customers by improving these aspects of customer service. The CMI improvement measure benefits customers by improving the outage restoration process, which will help alleviate one of the largest sources of customer frustration. These measures benefit customers by improving customer service in ways that are important to customers.

Q. WHAT ARE THE BENEFITS TO CUSTOMERS FROM THE OPERATIONAL EXCELLENCE MEASURES IN THE STI COMPENSATION PROGRAM?

A. As with the customer satisfaction measures above, the SAIDI[3] and reliability work plan measures benefit customers by encouraging actions that reduce outage frequency and duration, improve response and restoration times, and make system improvements that have these same benefits. For example, the reliability work plan measures include goals related to inspecting overhead and underground equipment, meeting a vegetation spray plan, addressing worst performing circuits, developing a small wire replacement program and modernizing SWEPCO's distribution system. These goals reduce the frequency and duration of outages, which provide substantial tangible and intangible benefits to customers.

[3] (SAIDI) System Average Interruption Duration Index represents the total number of minutes the average customer has experienced interruption over a 12-month period.

The Strategic Operational Excellence Work Plan measures benefit customers by encouraging pursuit of load growth through energy conversion (i.e. electric vs. gas cooking) and economic development and engagement in the Texas Generation Cost Recovery Factor (GCRF) rulemaking process. These measures improve SWEPCO service offerings and reduce costs for customers.

Q. WHAT ARE THE BENEFITS TO CUSTOMERS OF THE FINANCIAL MEASURES IN THE STI COMPENSATION PROGRAM?

A. The financial STI performance measures focus employees on cost control, adherence to budget, and promoting the efficient use of financial resources, which is essential for providing reliable service at a reasonable cost to customers. Financial measures continuously emphasize the importance of maintaining financial discipline and directly encourage employees to spend conservatively, operate efficiently, and conserve resources. This has and will continue to directly benefit customers by reducing the Company's cost of service through cost savings that are passed on to customers in rates that are lower than they otherwise would be if SWEPCO did not use such performance measures.

Financially based incentive compensation is also a mechanism for reducing the Company's cost of capital and better ensuring access to capital at reasonable rates, particularly during recessionary and other periods of weaker earnings, such as those caused by major storms or catastrophic events. This provides additional capital, reduces earnings volatility, and bolsters the Company's financial stability, which provides access to capital at more reasonable rates when capital may otherwise be overly expensive or inaccessible. Furthermore, ensuring that incentive compensation payments do not impair the Company financially reduces the risk of additional expense caused by such difficulties, which benefits SWEPCO customers. These effects all reduce the cost of service for SWEPCO customers.

Q. WHAT OTHER SPECIFIC BENEFITS DOES STI PROVIDE?

A. In addition to enabling the Companies to attract and retain suitably skilled and qualified employees it needs to provide its service to customers efficiently and effectively, its benefits include:

- Communicating goals and performance, which improves their visibility and encourages their achievement in accordance with the adage "what gets measured gets done";
- Aligning goals and employee efforts throughout the organization, which better ensures that adequate time, attention and resources are provided for their achievement, employees are focused on them and that everyone is pulling in the same direction;
- Rewarding employees for achievement of goals and objectives, which encourages employees to expend discretionary effort to achieve them and reinforces their positive behavior when they succeed;
- Enhancing the Companies' culture and performance by giving all employees a personal stake in achieving goals and objectives and by creating a shared purpose;
- Shifting a portion of compensation from a fixed to a variable expense that varies based on the performance, which reduces earnings volatility, business risk, and borrowing costs;
- Creating a culture of high performance and cost consciousness; and
- Reducing costs through increased productivity and cost savings.

Q. IS THE COMPANY REQUESTING THE INCLUSION OF ALL TEST YEAR STI COMPENSATION IN ITS REVENUE REQUIREMENT IN THIS CASE?

A. No. In accordance with the Commission's practice established in Docket No. 46449, the Company is requesting inclusion in its cost of service and rate base of only the non-financial portion of the target level of STI expense, after excluding 50% of any financially based funding mechanism for employees who are not union represented.

The Company is requesting the full target level of STI expense be included in its cost of service for union represented employees for whom STI compensation was collectively bargained. In both cases the Company is requesting inclusion of only the target level of test year STI expense, which is the market-competitive level, rather than the larger actual per books expense.

However, it is also my understanding that legislation will be introduced during the pendency of this case that, similar to Utilities Code Sec. 104.060 for gas utilities, would require that "When establishing an electric utility's rates, the regulatory authority shall presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with recent market compensation studies." The effective date of this legislation, if passed, may be during the likely course of this rate case. In light of the potential impact of this legislation, it is prudent for the Company to provide evidence in support of its position that the target level of incentive compensation should be included in the Company's cost of service and rate base if the anticipated legislation is enacted.

Q. DOES THE COMPANY DISAGREE WITH THE COMMISSION'S PRACTICE OF EXCLUDING FINANCIALLY BASED INCENTIVE COMPENSATION FROM UTILITIES COST OF SERVICE FOR RATE MAKING PURPOSES IN ALL CASES AND, IF SO, WHY?

A. Yes. The Company disagrees with the Commission's practice because it is unreasonable and unjust for shareholders to pay for the financially based portion of the target level of STI, which is a reasonable and necessary cost of providing service to customers, unless such expense is contrary to customers' interests. To the contrary, I have shown the Companies' financially based STI to be in customers' interests. The entire target level of STI is a necessary cost of providing service to customers because it is a component of market competitive Total Compensation, which is needed to efficiently and effectively attract, retain and engage employees with the skills and experience provide service to customers efficiently and effectively.

It is also unreasonable and unjust for shareholders to pay the cost of performance improvements derived from financially based STI when those benefits, both current and accumulated, inure to customers through this and previous rate case proceedings. It is unreasonable to expect that the new incremental benefits generated by employees due to financially based STI going forward, if any, will be sufficient to offset its full cost. Such cost justification is unnecessary because financially based STI is a component of a market competitive Total Compensation package that enables the Companies to attract and retain suitable employees. The accumulated cost savings that the Companies' STI compensation has produced over the decades it has been in place are reflected in SWEPCO's test year cost of service and these savings will again be embedded in rates as they have been in prior rate case proceedings. There is no mechanism for these accumulated benefits to flow to shareholders despite the fact that the Commission's policy requires shareholders to pay for a large portion of this cost. Furthermore, maintaining these measures prevents backsliding on previously achieved cost-control and efficiency savings.

Given that customers already enjoy the ongoing benefits provided by financially based annual Incentive Compensation and that it may not provide any new incremental benefits going forward beyond those provided by a market competitive

Total Compensation package, it is clear that customers, not shareholders, are the primary beneficiaries of the Companies' Incentive Compensation program. Excluding financially based Incentive Compensation from SWEPCO's revenue requirement is not justified based on the facts and circumstances in this case and doing so will impede the Companies' ability to earn the rate of return set by the Commission in this proceeding.

Q. PLEASE SUMMARIZE YOUR TESTIMONY WITH RESPECT TO STI COMPENSATION.

A. The Companies' STI program provides substantial benefits to Texas customers and has no cost above the cost of providing market-competitive Total Compensation through Base Pay alone. The financially based portion of STI, in particular, has been shown to provide benefits to customers. It is unfair and unjust to exclude financially based incentive compensation from rates and it is not a sustainable approach to ratemaking.

Customers are receiving and will continue to receive benefits from the suitably skilled and experienced employees who are attracted, retained, and engaged from the larger actual level of STI compensation awarded, as well as from the accumulated value of incentivized achievements over the many years the STI program has been in place. Therefore, it would be just and reasonable to include the full cost of the target level of incentive compensation, not just the non-financially based portion, in the Company's cost of service and rate base.

B. Long-Term Incentive (LTI) Compensation

Q. IS THE COMPANY REQUESTING THAT LTI COMPENSATION EXPENSE BE INCLUDED IN THE COST OF SERVICE IN THIS CASE?

A. Yes, in accordance with the Commission's practice and past rate cases, the Company is requesting that the test year level of LTI compensation, excluding the portion tied to financial measures, be included in SWEPCO's cost of service and rate base. The included amount is the 25% portion related to restricted stock units (RSUs), which are not tied to any performance measures (financial or otherwise) but are instead provided to foster employee retention over a longer period. However, as discussed previously, the Company has also demonstrated the reasonableness of all of its Incentive Compensation costs in the event that legislation is enacted to support full recovery of those costs.

Q. PLEASE BRIEFLY DESCRIBE THE COMPANIES' LTI PROGRAM.

A. The Companies' LTI compensation, in total (not just the 25% RSU portion), is similar to STI Compensation in that it too is an integral component of reasonable and market competitive Total Compensation for eligible employees which is necessary to attract, retain, and engage suitably skilled, experienced, and knowledgeable employees. As such, LTI compensation has no incremental cost above the cost of providing market-competitive Total Compensation through Base Pay alone. LTI also encourages decision making from a long-term perspective and fosters operational continuity by improving the long-term retention of participants.

Approximately 1,300 employees (about 7% of AEP employees) received an LTI award in the test year. Participation is generally limited to employees in positions that have responsibility for decisions that have a longer-term impact on the Companies and customers. Such employees often have historical and experiential knowledge of the Companies' practices and often assist in creating and implementing the vision of how AEP and SWEPCO best serve customers both now and in the future. LTI participants are often responsible for maintaining the focus of employees on customers, making often-difficult allocation of resource decisions, and driving customer experience improvements. Because of the value these employees provide to the Companies and customers, retaining them is particularly important to providing high quality service to customers at a reasonable cost. The Companies designed the LTI compensation program to foster the retention of such participants.

LTI awards granted in the test year were composed of 75% performance units and 25% RSUs.

Q. PLEASE DESCRIBE PERFORMANCE UNITS.

A. Performance units are generally similar in value to shares of AEP common stock, except that participants must generally continue their AEP employment over a three-year period to earn a payout and the number of performance units that participants ultimately earn is tied to AEP's long-term performance. All performance units granted in the test year were granted with three performance measures:

- Three-year cumulative operating earnings per share (Operating EPS) measured relative to a Board-approved target (50% weight),
- Three-year total shareholder return (TSR) measured relative to a peer group of similar utility companies (40% weight), and
- Non-Emitting Generation Capacity measured relative to a board approved target (10% weight).

Awards granted prior to 2020 had two performance measures, Operating EPS and TSR, (both as described above), which were equally weighted. As with STI, the Companies' cap the maximum score for all LTI performance measures at 200% of target. Taken together, the STI and LTI measures balance the short-term and long-term interests of the Companies' and its customers.

Q. PLEASE DESCRIBE THE COMPANIES' RSUS.

A. The Companies provide the remaining 25% of its LTI in the form of RSUs that vest subject to the participants' continued AEP employment on three vesting dates over a three or more year period. RSUs and are not tied to any performance measures. Participants who remain continuously employed with AEP through an RSU vesting date receive an equal number of shares of AEP common stock as the number of RSUs that vest on such date. Otherwise, with certain exceptions such as severance due to position eliminations and a participant's death, the RSUs are forfeited upon employment termination.

Q. IS LTI COMPENSATION A PREVALENT FORM OF COMPENSATION FOR THE UTILITY INDUSTRY?

A. Yes, it is highly prevalent. Nearly all investor owned utility companies of AEP's size and complexity have similar LTI programs, as do nearly all public general industry companies. LTI compensation is a significant component of total compensation (a minimum of 19% of base salary at the median) for all 104 unique positions for which a sufficient sample was available.[4] EXHIBIT ARC-6 shows that LTI compensation is a substantial component of market-competitive compensation for all of the positions included in this analysis.

[4] Willis Towers Watson. 2019 Energy Services Executive Compensation Survey - U.S. Report, Position Listing, incumbent weighted statistics.

Q. WHAT ARE THE BENEFITS TO CUSTOMERS FROM THE COMPANIES' LTI COMPENSATION PROGRAM?

A. In addition to the benefits that all of the Companies' Incentive Compensation provides to customers, LTI compensation also provides a retention incentive to participants, which benefits customers by improving the retention of employees with greater company experience in roles that have long-term decision-making responsibility, which improves the continuity of the Companies' operations.

The non-emitting generation capacity measure benefits customers and the communities the Companies serve by encouraging, over a longer-term period, the addition of regulated and competitive renewable generation to the grid, retirement of greenhouse gas emitting plants, and increased use of energy efficiency and demand-side management programs. This has the added benefit of improving perceptions of the Companies in the eyes of the customers, the public, investors, and potential recruits, all of which may lead to reduced costs for customers as the result of improved customer interactions and increased interest from investors and potential recruits that this provides.

Tying a portion of management compensation to long-term measures of financial performance, specifically the EPS and TSR measures used in the Companies' performance unit awards, encourages better long-term decision making and financial discipline, which benefits customers by encouraging cost control. Customers benefit from efficient, effective, and consistent operations; suitably skilled, experienced, knowledgeable, and stable employees in management and other leadership positions;

better long-term decision-making; and strong financial discipline. All of these factors contribute to lower costs for customers.

Maintaining long-term financial discipline is imperative, particularly given the long-term nature of the assets that comprise the Company's electric system. The EPS and TSR performance unit measures communicate this imperative and strongly encourage its pursuit, which promotes expense control, efficient operations, and conservation of resources. This directly benefits customers by reducing the Company's cost of service and rates compared to what they would otherwise be.

As with STI compensation, customers are receiving and will continue to receive benefits from the suitably skilled and experienced employees who were attracted, retained, and engaged from past above target LTI payouts as well as from the accumulated value of incentivized achievements over the many years the LTI program has been in place.

Q. ARE THERE ANY INDIRECT COSTS TO CUSTOMERS OF THE COMPANIES' LTI PROGRAM?

A. No. Capping the maximum score, setting stretch but achievable targets, and providing a balance of short-term and LTI compensation, as the Companies do, better ensures that participants are not encouraged to pursue financial objectives at the expense of other important objectives, such as customer service and safety. The Companies' short-term and long-term performance measures are designed to balance each other to ensure that short-term objectives are not achieved at the expense of long-term performance. Likewise, the Companies' financial short and long-term performance objectives are balanced by operational and other objectives as part of a "balanced scorecard" to better assure that financial objectives are not achieved at the expense of other important objectives. This balanced approach mitigates the potential for the Companies' LTI compensation to encourage behaviors that would be counter to customers' interests. Therefore, LTI compensation does not give rise to any indirect costs that would offset the substantial benefits it provides to customers.

Q. DO THE TOTAL BENEFITS OF THE LTI COMPENSATION EXCEED ITS COST TO SWEPCO CUSTOMERS?

A. Yes. By providing LTI compensation as part of a market-competitive Total Compensation package, LTI compensation does not have any incremental cost to customers, beyond the cost of providing market-competitive Total Compensation through other types of compensation. By encouraging participant retention, which improves operational continuity and performance, it reduces the cost of service for customers. It also reduces the cost customers bear by encouraging long-term financial discipline, among the other benefits previously mentioned. With significant accumulated benefits, new incremental benefits, and no incremental cost, the benefits of the LTI program clearly exceed its cost to customers.

Q. IS IT REASONABLE AND NECESSARY TO INCLUDE LTI COMPENSATION IN THE COMPANIES' COST OF SERVICE AND RATE BASE FOR RATE MAKING PURPOSES?

A. Yes. LTI compensation has been clearly shown to be a reasonable, customary, and prudent cost of doing business that provides substantial overall net benefit to customers because, among other reasons, it:

(a) Does not have any incremental cost above the cost of providing market-competitive compensation through other forms of pay;
(b) Improves participant retention and, consequently, management and operational continuity;
(c) Encourages appropriate consideration of longer-term factors in decision making; and
(d) Improves operating effectiveness and cost control.

Therefore, it is just and reasonable to include the cost of LTI compensation in SWEPCO's cost of service for ratemaking purposes.

VI. BENEFIT PLAN POLICIES AND OBJECTIVES

Q. DESCRIBE THE POLICIES AND OBJECTIVES THAT AEP SEEKS TO ACHIEVE IN THE DESIGN OF THE BENEFIT PLANS OFFERED TO SWEPCO AND AEPSC EMPLOYEES.

A. The benefit plans provided to all AEP employees are designed to be an important component of the employees' Total Compensation and benefits package (i.e., employee compensation, benefits, vacation, sick leave, etc.). Specifically, AEP's objectives are to provide benefits offerings that:

- Support the recruitment, motivation and retention of employees with skills needed to achieve the AEP operating companies' and other AEP affiliate business objectives;
- Protect employees from severe financial hardship due to catastrophic life events;
- Provide a variety of benefit offerings that meet the diverse needs of the workforce;
- Influence desired behaviors by, for example, providing incentives to encourage employees to obtain preventive care services under the medical plan and minimizing inefficient consumption of medical services;
- Ensure the total cost of benefit programs remains affordable and sustainable for AEP and employees; and
- Maintain compliance with applicable federal and state laws.

VII. BENEFIT PROGRAM DESIGN

Q. PLEASE DESCRIBE AEP'S EMPLOYEE BENEFIT PROGRAMS PROVIDED TO EMPLOYEES.

A. AEP operates an overall benefits program in which all eligible employees may participate. The programs include medical, wellness, dental, sick pay, long-term disability (LTD), life insurance, accidental death and dismemberment, retirement pension, retirement savings (401k), vacation and holiday benefits. These programs are financed through a combination of employer and employee contributions. Many of AEP's benefit programs, including the medical, dental, and LTD programs, are self-funded using a Voluntary Employee Beneficiary Association Trust, as opposed to utilizing a fully insured arrangement in which premiums are paid to an insurance company for coverage. Employee contributions, as well as monthly contributions from the AEP companies for each employee, are deposited to the trust and used to fund the actual claims and vendor administration expenses as allowed under law. A brief summary of each benefit plan is outlined in EXHIBIT ARC-8a and EXHIBIT ARC-8b.

Q. WHAT ACTIONS HAVE THE COMPANIES TAKEN TO CONTROL THE COST OF EMPLOYEE BENEFITS?

A. On an ongoing basis, AEP reviews its employee benefits in an effort to contain costs, while continuing to provide benefits that are sufficient to attract and retain employees. Periodically, benefit plan changes are made and other steps are taken to control costs. AEP continues to build on the 2016 implementation of all consumer-directed medical plans. In 2017, to secure efficiency savings and to enhance the employee experience, AEP changed behavioral health service vendors to the same carrier providing medical benefits. In 2019, AEP implemented diabetes prevention and second opinion programs. In the pharmacy space, AEP implemented a retail 90-day supply prescription drug program. The Companies also provide a digital healthcare concierge to help employees take control of their health care by providing them personalized care reminders, prevention tips and the ability to compare doctors and medical services based on quality, convenience and cost. Each of these enhancements were designed to provide an improved customer experience for the employees, reduce potentially preventable disease and reduce costs.

AEP benefit contracts generally cover a one to three year period. AEP routinely reviews and evaluates these contracts to ensure they are market competitive. AEP, in conjunction with benefit consultants, Aon and Willis Towers Watson, solicit and evaluate proposals to ensure they meet performance expectations and are competitively priced.

Finally, AEP is also an active member of the Health Action Council of Ohio, which is a group of multi-state employers that work to extend group purchasing power to affect the delivery and price of healthcare services in the states in which they operate.

VIII. SWEPCO CONTRIBUTIONS TO EMPLOYEE BENEFIT PROGRAMS

Q. WHAT WERE SWEPCO'S CONTRIBUTIONS RELATED TO THE EMPLOYEE BENEFIT PLANS DURING THE TEST YEAR?

A. SWEPCO's total cost, during the test year, for medical, dental, life insurance, accidental death and disability, long-term disability, and retirement savings (401k) plan was $25,089,385.15. These contributions were made directly by SWEPCO for its employees and not by AEPSC. Retirement (pension) plan and other post-employment benefits are provided and discussed by SWEPCO witness Baird. EXHIBIT ARC-9a details the contributions made by SWEPCO by benefit plan and EXHIBIT ARC-9B illustrates the per employee monthly AEP and employee contributions for healthcare benefits. SWEPCO witness Brian J. Frantz addresses how employee benefit costs for AEPSC employees are charged to SWEPCO.

IX. REASONABLENESS AND NECESSITY OF AEP'S BENEFIT PROGRAMS

Q. HOW DOES AEP DETERMINE THAT THE EMPLOYEE BENEFIT PROGRAMS THAT IT OFFERS ARE REASONABLE AND NECESSARY?

A. AEP compares itself with companies from both the utility industry and general industry when benchmarking its total benefit value because AEP must attract employees from a mix of professions and industries. Potential applicants may pursue job opportunities within the energy market or in a broad business and industrial job market; therefore, AEP's provision of benefits is necessary to offer in order to attract qualified and competent employee candidates and must be competitive with both labor markets.

Q. HOW ARE BENEFIT VENDORS SELECTED?

A. Benefit outsourcing contracts generally cover a one to three year period depending on the benefit, vendor, and market conditions. As we approach each contract renewal, the vendor is asked for a formal proposal to cover the renewal period. These proposals are reviewed internally and in most cases by independent third party consultants, such as Aon and Willis Towers Watson. These experts help set the performance standards and determine if the contract proposal is market competitive. If the proposal does not meet our performance expectations or is not competitively priced, requests for proposals are sent to qualified vendors and a final vendor is selected through a competitive bid process.

A. Benefit Program Value

Q. PLEASE DESCRIBE HOW THE VALUE OF AEP'S BENEFIT PROGRAM IS ASSESSED.

A. As previously mentioned, AEP utilizes the services of Aon, specifically the Benefit Index Report, to help determine the reasonableness of the benefits offered. The Benefit Index compares information on the individual benefit programs offered by AEP to other utility-specific employers. The Benefit Index assigns a value to the benefits provided by participating companies based on the level of benefits provided and the type of program offered. The Benefit Index's comparative analysis expresses the relative value of an individual company's benefit plan as an index calculated by dividing the company's actuarial benefit plan value by the average benefit plan actuarial value for all of the companies participating in the comparison. Neither the cost to provide such benefits, nor the contributions required from employees, is factored into this comparison.

Q. WHAT DO YOU CONCLUDE FROM A REVIEW OF THESE METRICS AND VALUE COMPARISONS?

A. I conclude that the employee benefit plans provide a level of employee value that is at or near the mid-range of value, making them competitive with other businesses such that SWEPCO can attract qualified and competent employees.

B. Reasonableness of Benefit Program Costs

Q. HOW DOES AEPSC'S HR DEPARTMENT MONITOR THE REASONABLENESS OF SWEPCO's BENEFIT COSTS?

A. AEPSC's HR Department performs annual reviews of the reasonableness of the costs associated with the benefit plans and continually considers what changes can be made to improve the overall efficiencies of the benefit programs. As I discuss below, data routinely used by the HR Department to help gauge the reasonableness of employee benefit costs fully support the reasonableness of those costs.

Q. WHAT DOES THE SURVEY DATA SHOW REGARDING COSTS RELATED TO AEP'S MEDICAL PLANS?

A. Generally speaking, the survey value for AEP's health care benefits is slightly above the average survey participant representing 30.9% of AEP spend as compared to 30.5% for the comparators. CONFIDENTIAL EXHIBIT ARC-11 illustrates that the AEP medical plan is 14% more efficient than the industry translating to savings of nearly $40 million dollars as compared to the benchmark. CONFIDENTIAL EXHIBIT ARC-10, page five illustrates that in 2019 AEP sits in the middle, between 5th and 6th place in total value as compared to the other industry survey participants.

X. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The Commission's enabling purpose as provided in the PURA Section 11.002. *Purpose and Findings*:

> (a) This title is enacted to protect the public interest inherent in the rates and services of public utilities. The purpose of this title is to establish a comprehensive and adequate regulatory system for public utilities to assure rates, operations, and services that are just and reasonable to the consumers and to the utilities.

In this testimony, I have demonstrated that the total employee compensation that SWEPCO seeks to include in its cost of service for ratemaking purposes is just and reasonable to the customers and to the utility. I have shown that employee compensation is within a reasonable market competitive range, which is required by the utility to attract and retain the knowledgeable, experienced and qualified employees needed to safely, efficiently and effectively provide reliable electric services to customers. I also demonstrate that the Companies' Incentive Compensation is designed to minimize overall expenses, which reduces the cost of service to customers. The Companies' total employee compensation program (consisting of Base Pay, variable STI compensation and, for some positions, variable LTI compensation) is a reasonable, necessary and prudent cost of providing service to customers. However, in accordance with Commission policy established in the Company's prior case (Docket No. 46449), the Company has removed incentive compensation in excess of the target level for all positions as well as financially based incentive compensation and 50% of the STI financially based funding mechanism for all positions except those for which Incentive Compensation was collectively bargained. Nevertheless, the Company requests recovery of the target level of Incentive Compensation for all positions in the event that the Legislature changes the law on this issue.

Q. PLEASE SUMMARIZE YOUR TESTIMONY WITH RESPECT TO SWEPCO'S EMPLOYEE BENEFIT PLANS.

A. As demonstrated throughout my testimony and supporting exhibits, SWEPCO's benefit plans are necessary and reasonable and in line with programs offered by similar-sized companies in both the utility and general industry. The current level of benefits enables AEP and SWEPCO to attract and retain a skilled workforce at reasonable cost.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Previous Rate Case Testimony List for Andrew R. Carlin

Company Witness Andrew R. Carlin has submitted rate case testimony in the following regulatory proceedings:

- To the Oklahoma Corporation Commission on behalf of Public Service Company of Oklahoma in Cause Nos. 201000050, 201300217, 201500208 and 201700151.
- To the Michigan Public Service Commission on behalf of Indiana Michigan Power in Case Nos. U-16180, U-16801 and U-18370.
- To the Indiana Utility Regulatory Commission on behalf of Indiana Michigan Power in Cause Nos. 44967 and 45235.
- To the West Virginia Public Service Commission on behalf of Appalachian Power Company and Wheeling Power Company in Case Nos. 10-0699-E-42T and 14-1152-42T.
- To the Virginia State Corporation Commission on behalf of Appalachian Power Company in Case No. PUE-2011-00037.
- To the Kentucky Public Service Commission on behalf of Kentucky Power Company in Case Nos 2009-00459, 2013-00197, 2014-00396 and 2017-00179.
- To the Texas Public Utility Commission on behalf of AEP Texas Inc. and for AEP Texas Central Division (Central Division) and AEP Texas North Division (North Division) PUC Docket Number 49494.
- To the Texas Public Utility Commission on behalf of Southwestern Electric Power Company in Dockets No. 40443 and 46449.
- To the Arkansas Public Service Commission on behalf of Southwestern Electric Power Company in Docket No. 19-008-U.
- To the Public Utilities Commission of Ohio on behalf of Ohio Power Company in Case Nos. 20-585-EL-AIR, 20-586-EL-ATA and 20-587-EL-AAM

Surveys Completed and Used for Compensation Comparisons

Willis Towers Watson U.S. Compensation Data Bank (CDB):

2019 Energy Services Industry - Executive Compensation Survey Report

2019 Energy Services Industry - Middle Management, Professional & Support Compensation Survey Report

2019 General Industry - Executive Compensation Survey Report

2019 General Industry - Middle Management, Professional and Support Compensation Survey Report

2018 Energy Marketing and Trading Survey Report

2019 Custom AEP Peer Group - Executive Compensation Surveys

2019 Custom AEP Broad Peer Group - Executive Compensation Surveys

EAPDIS, LLC - 2019 Energy Technical Craft Clerical Survey

Equilar Top 25 Survey - 2018 TrueView Survey Report

SWEPCO Physical and Craft Positions vs. Market-Competitive Compensation (High to Low) With and Without STI

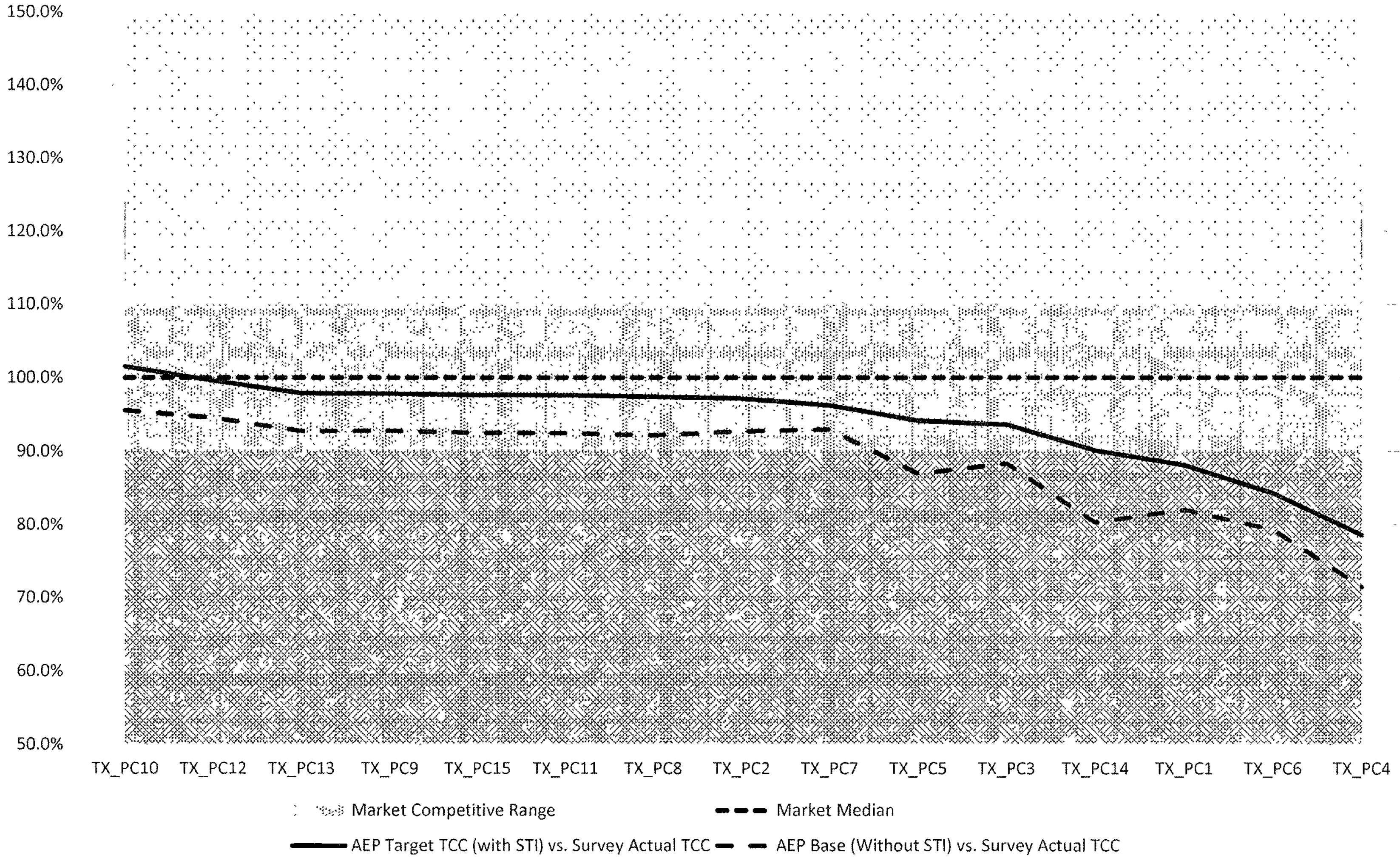


EXHIBIT ARC-3

SWEPCO and AEPSC Salaried Nonexempt Positions vs. Market-Competitive Compensation (High to Low) With and Without STI

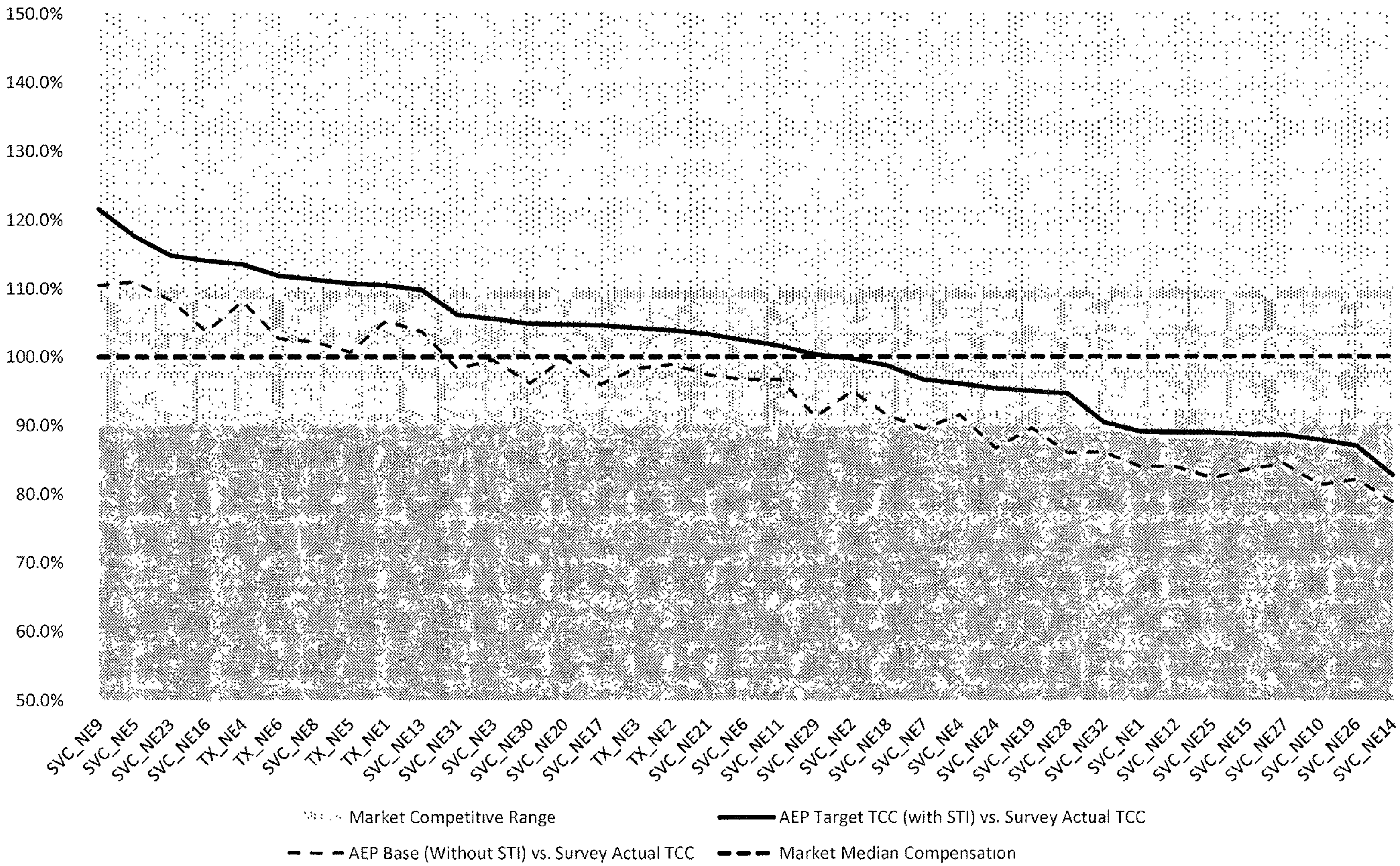


EXHIBIT ARC-4

SWEPCO and AEPSC Exempt Positions vs. Market-Competitive Compensation (High to Low) With and Without STI

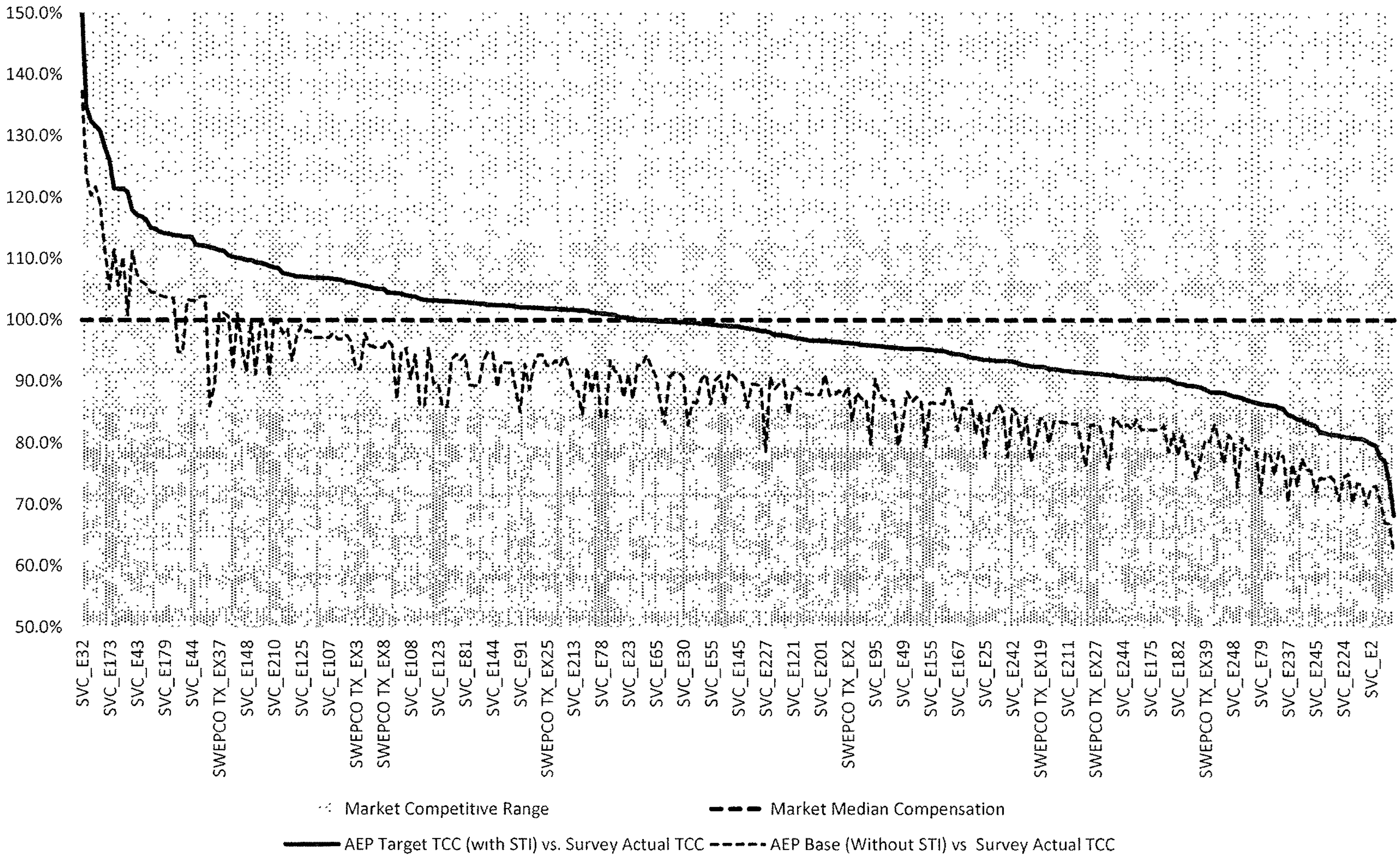


EXHIBIT ARC-5

1943

SWEPCO and AEPSC Executive Positions vs. Market-Competitive Compensation (High to Low) With and Without STI

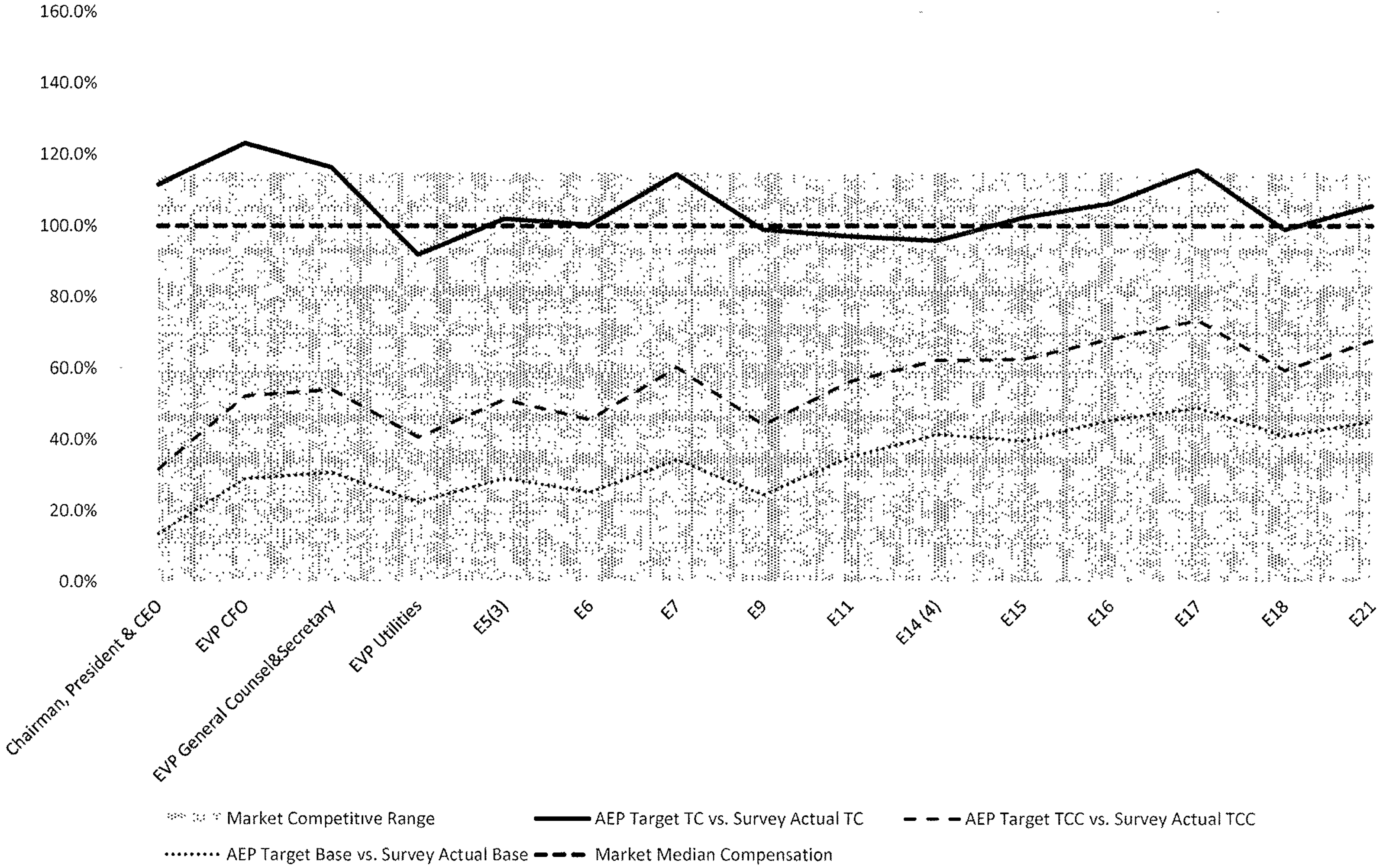


EXHIBIT ARC-6

******AEP Utilities 2020 ICP Plan ******

	Metric Name	Brief Description	Measures and Targets	Metric Weighting (%)
Workforce Development 35%	DART Rate - Employee & Contractor	DART (Days away, restricted or transferred) safety metric for both AEP employees and contractors	TBD - From Corporate Safety	5.0%
	Proactive Safety Performance	Collaborating with Safety Facilities/Site Inspection, Event Review Sharing, Contractor Safety Management, CORE Visit & Assessment Process, and Good Catch Quality Measure	TBD - From Corporate Safety	20 0%
	Diversity Goal	A stretch business unit Diversity goal based on "raw"* female and minority representation rate data.	▪ 0 0 = 0% improvement in business unit or operating company's female and minority representation (equally weighted) ▪ 1 0= 0 5% improvement in business unit or operating company's female and minority representation (equally weighted) ▪ 2 0 = 1% improvement in business unit or operating company's female and minority representation (equally weighted)	2 5%
	Accountability Index	The accountability index measures the response to 3 survey questions ▪ Whether culture survey results were reviewed ▪ Whether action plans were created with team members ▪ Whether progress was discussed/tracked throughout the year	0 0 = 50% or less of business unit teams experience a year-on-year improvement 1 0 = 75% of business unit teams experience a year-on-year improvement 2 0 = 90% or more of business unit teams experience a year-on-year improvement	2 5%
	C100 Line Mechanic Recruitment Model	Develop recruitment and training plan to leverage various line mechanic colleges as a pipeline for C100 certified employees	TBD - Combination of Project Milestones and number of C100 Employees hired	5 0%
Customer 17.5%	JD Power Quality & Reliability (PQR) Index Factor	Power Quality & Reliability (PQR) Index Factor Score and related attribute questions align with the Customer Satisfaction breakthrough objective	0 0 – Maintain or decreased score regardless of peer movement 0 5 – Score increases less than peer average 1 0 – Increase equal to or greater than peer average 1.5 – Increase at least one and a half times the peer average 2 0 – Increase at least two times peer average 1.0 Adder = Score above peer average	7 5%
	JD Power Quality - Power Communications Index	Communications Index Factors Score and related attribute questions align with the Ease of Doing Business breakthrough objective	0 0 – Maintain or decreased score regardless of peer movement 0 5 – Score increases less than peer average 1 0 – Increase equal to or greater than peer average 1 5 – Increase at least one and a half times the peer average 2.0 – Increase at least two times peer average 1 0 Adder = Score above peer average	7 5%
	CMI Improvement	Improve two (2) components of the utility group's outage restoration process by [x %] over target (note utility target or OPCo-specific target related to outage restoration will be derived in collaboration with the OPCos by 3/31/2020	TBD	2 5%
Operational Excellence 27.5%	SAIDI Actual	SAIDI performance (shared goal with Transmission)	TBD w/ Transmission Input after End of Year SAIDI performance is calculated	5 0%
	Reliability Work Plans	Develop and execute reliability enhancement initiatives that improve system reliability OPCo specific plans, as well as Distribution Services / Transmission joint plan	Measure Develop company specific work plans to improve system reliability Target End of Q1 finalize work plan for EVP approval Complete all tasks in work plans by end of year (2 0); complete half (1 0)	10 0%
	Strategic Operational Excellence Work plan	Basket of strategic initiatives related to growing the competitive business, advancing technology solutions and advocating for improved Regulatory treatment Bundle of four (4) strategic goals that will be selected by individual Operating Companies / Distribution Services and implemented per individual project plans	Measure See Note 1 Below Target 0 0 = No Initiatives successfully completed 1 0 = 2 Initiative successfully completed 2 0 = 4 or more initiatives successfully completed*	12 5%
Financial 20%	Net Income	Meet or beat annual Earnings targets for Operating Companies in line with corporate expectations	TBD after YE results are known	20 0%

January 1, 2020 - December 31, 2020

PARTICIPANT MEDICAL CONTRIBUTIONS

The pre-tax monthly cost to active full-time employees is calculated based on a percentage of the total cost of coverage. The pre-tax monthly costs to active part-time employees are two and one-half times the monthly costs of active full-time employees.

MEDICAL PLAN SURCHARGES

Spousal Surcharge

Effective January 1, 2014, if an active employee covers his/her spouse/domestic partner on AEP's medical plan, and that spouse/domestic partner has access to medical coverage through his/her employer, the employee will be assessed a surcharge of $50.00 per month.

Tobacco Surcharge

Effective January 1, 2015, employees who use tobacco and nicotine products will have a surcharge in the amount of $50.00 per month, assessed when they elect coverage under AEP's medical plan.

January 1, 2020 – December 31, 2020

GROUP MEDICAL PLANS

Health Savings Account (HSA) Plan Options	**HSA Basic**		**HSA Plus**	
	In-Network	**Out-of-Network**	**In-Network**	**Out-of-Network**
Company Annual Contribution to HSA	NA	NA	participant only: $500 participant + spouse or participant + child(ren): $750 participant + family: $1,000	
Annual Deductible (includes medical, prescription and behavioral health)	$2,800/participant $5,600/participant + spouse $5,600/participant + 1 child $8,400/participant + children $8,400/participant + family	$4,000/participant $8,000/participant + spouse $8,000/participant + 1 child $12,000/participant + children $12,000/participant + family	$2,000/participant $3,000/participant + spouse $3,000/participant + child(ren) $4,000/participant + family	$3,000/participant $4,500/participant + spouse $4,500/participant + child(ren) $6,000/participant + family
Annual out-of-pocket maximum	$4,000/participant $8,000/participant + spouse $8,000/participant + 1 child $12,000/participant + child(ren) $12,000/participant + family	$8,000/participant $16,000/participant + spouse$16,000/participant + 1 child $24,000/participant + child(ren) $24,000/participant + family	$4,000/participant $6,000/participant + spouse $6,000/participant + child(ren) $8,000/participant + family	$6,000/participant $9,000/participant + spouse $9,000/participant + child(ren) $12,000/participant + family
Co-Insurance	10% after deductible	30% after deductible	15% after deductible	30% after deductible
Preventive Care	$0%; no deductible	30% after deductible	$0%; no deductible	30% after deductible
Prescription Coverage	10% after deductible		15% after deductible	
2020 Full-Time Employee Monthly Cost	participant only $35.47 participant + spouse/domestic partner $100.93 participant + child(ren) $77.63 participant + family $143.10		participant only $92.31 participant + spouse: $236.42 participant + child(ren) $185.14 participant + family $329.26	

January 1, 2020– December 31, 2020

HRA Plan				
		Participant Only	**Participant + Spouse or Participant + Child(ren)**	**Participant + Family**
Health Reimbursement Account (HRA)	AEP Annual Allocation	$1,000	$1,500	$2,000
Traditional Health Coverage (Prescription coverage same as any other medical expense)	Annual Deductible (includes medical, prescription drug and behavioral health)	$1,500	$2,250	$3,000
	Then, employee pays coinsurance for covered services	15% for in-network providers 30% for out-of-network providers		
	Annual Out-of-Pocket Maximum	$4,000 if in-network $6,500 if out-of-network	$6,000 if in-network $9,750 if out-of-network	$8,000 if in-network $13,000 if out-of-network
Annual Preventive (not applied to Company's HRA allocation)	In-network: 0%; no deductible Out-of-network: 30% after deductible			

Live Health Online

Live Health Online provides employees and their eligible dependents with 24/7/365 access to US board-certified physicians by online video. Live Health Online can diagnose, recommend treatment and prescribe medication when appropriate, including sinus problem, bronchitis, allergies, poison ivy, cold and flu symptoms, urinary tract infection, respiratory infection and more. The cost to participants for each physician consultation is $59, $80 for behavioral health therapist, $95 for psychologist, and $150 for psychiatrist initial consultation and $75 for follow up consultations.

This program is available to participants enrolled in an AEP health plan.

Wellness Program

Healthy living habits are an essential ingredient for healthy employees. For that reason, AEP sponsors a number of programs, including incentives, and initiatives designed to help employees achieve and maintain a healthy lifestyle. All active employees (regardless of whether they are enrolled in a medical plan) are eligible to participate in the following wellness programs along with spouses and domestic partners of active employees who are covered under an AEP medical plan. Rewards are offered for annual well check, dental exams, eye exam or skin cancer screening, and financial wellbeing coaching calls, diabetes prevention program, and healthy living challenges during the year.

January 1, 2020 – December 31, 2020

GROUP DENTAL

DPPO option

Coverage Level	Participant Only	Participant + Spouse	Participant + Child(ren)	Participant + Family
Deductible (does not apply to preventive service)	$50/individual	$50/individual	$50/individual $150/family	$150/Family
Annual Maximum	$1,750 per covered person			
Coinsurance				
Preventive	100%			
Basic Services	80% after deductible			
Major Services	50% after deductible			
Orthodontia	50% up to a lifetime maximum of $1,750 per covered child			

DMO Option

A DMO option is available to employees who live within the same zip code area as a network DMO dentist. Similar to a medical Health Maintenance Organization (HMO), the DMO provides dental service through a group of network dentist. The DMO offers no deductibles or annual maximum, no co-pay for covered preventive services and low, fixed co-pays on other dental services.

The pre-tax monthly costs to active part-time employees are two and one-half times the monthly costs to active full-time employees. The monthly costs to certain grandfathered retirees and surviving dependents are the same as active employees. The monthly cost to most other retirees and eligible surviving dependents are 100% of the total cost of coverage.

Employee Monthly Contribution	Employee Only	Employee + Spouse	Employee + Child(ren)	Employee + Family
DPPO Plan	$12 08	$24 04	$34.51	$46 58
DMO Plan	$8 84	$18 12	$20 43	$29.71

VISION PLAN

AEP offers comprehensive employee paid vision coverage for eye care and vision correction. AEP's Comprehensive Vision Plan provides coverage through the Fidelity Security Life Insurance Company for eye exams, contacts (including disposable contacts) and eyeglass lenses and frames. It also offers discounts on special features, such as scratch-resistant lenses, laser eye surgery and more. Vision care discounts are also available through the Anthem medical plans.

Vision plan participants can take advantage of the discounted retinal-imaging exam option; in addition, members who have Type 1 or Type 2 diabetes are eligible for a follow-up exam and additional testing two times per benefit year.

Benefits are provided through EyeMed Vision Care's Access national network of private practice optometrists, ophthalmologists, opticians and retailers, such as Sears Optical, Target Optical, most Pearle Vision locations and LensCrafters.

Employee Contribution	Employee Only $ 6.82/mth	Employee + Spouse $12.93/mth	Employee + Child(ren) $13.61/mth	Employee + Family $20.41/mth

January 1, 2019 - December 31, 2019

PARTICIPANT MEDICAL CONTRIBUTIONS

The pre-tax monthly cost to active full-time employees is calculated based on a percentage of the total cost of coverage. The pre-tax monthly costs to active part-time employees are two and one-half times the monthly costs of active full-time employees.

MEDICAL PLAN SURCHARGES

Spousal Surcharge

Effective January 1, 2014, if an active employee covers his/her spouse/domestic partner on AEP's medical plan, and that spouse/domestic partner has access to medical coverage through his/her employer, the employee will be assessed a surcharge of $50.00 per month.

Tobacco Surcharge

Effective January 1, 2015, employees who use tobacco and nicotine products will have a surcharge, in the amount of $50.00 per month, assessed when they elect coverage under AEP's medical plan.

January 1, 2019 – December 31, 2019

GROUP MEDICAL PLANS

Health Savings Account (HSA) Plan Options	HSA Basic		HSA Plus	
	In-Network	Out-of-Network	In-Network	Out-of-Network
Company Annual Contribution to HSA	NA	NA	participant only: $500 participant + spouse or participant + child(ren): $750 participant + family: $1,000	
Annual Deductible (includes medical, prescription and behavioral health)	$2,700/participant $5,400/participant + spouse $5,400/participant + 1 child $8,100/participant + children $8,100/participant + family	$4,000/participant $8,000/participant + spouse $8,000/participant + 1 child $12,000/participant + children $12,000/participant + family	$2,000/participant $3,000/participant + spouse $3,000/participant + child(ren) $4,000/participant + family	$3,000/participant $4,500/participant + spouse $4,500/participant + child(ren) $6,000/participant + family
Annual out-of-pocket maximum	$4,000/participant $8,000/participant + spouse $8,000/participant + 1 child $12,000/participant + child(ren) $12,000/participant + family	$8,000/participant $16,000/participant + spouse$16,000/participant + 1 child $24,000/participant + child(ren) $24,000/participant + family	$4,000/participant $6,000/participant + spouse $6,000/participant + child(ren) $8,000/participant + family	$6,000/participant $9,000/participant + spouse $9,000/participant + child(ren) $12,000/participant + family
Co-Insurance	10% after deductible	30% after deductible	15% after deductible	30% after deductible
Preventive Care	$0%; no deductible	30% after deductible	$0%; no deductible	30% after deductible
Prescription Coverage	10% after deductible		15% after deductible	
2020 Full-Time Employee Monthly Cost	participant only $33.08 participant + spouse/domestic partner $73.63 participant + child(ren) $63.39 participant + family $106.16		participant only $89.70 participant + spouse: $209.67 participant + child(ren) $172.09 participant + family $292.20	

January 1, 2019– December 31, 2019

HRA Plan				
		Participant Only	**Participant + Spouse or Participant + Child(ren)**	**Participant + Family**
Health Reimbursement Account (HRA)	AEP Annual Allocation	$1,000	$1,500	$2,000
Traditional Health Coverage (Prescription coverage same as any other medical expense)	Annual Deductible (includes medical, prescription drug and behavioral health)	$1,500	$2,250	$3,000
	Then, employee pays coinsurance for covered services	15% for in-network providers 30% for out-of-network providers		
	Annual Out-of-Pocket Maximum	$4,000 if in-network $6,500 if out-of-network	$6,000 if in-network $9,750 if out-of-network	$8,000 if in-network $13,000 if out-of-network
Annual Preventive (not applied to Company's HRA allocation)	In-network: 0%; no deductible Out-of-network: 30% after deductible			
2020 Full-Time Employee Monthly Cost	participant only $141.90 participant + spouse/domestic partner $340.44 participant + child(ren) $275.36 participant + family $474.44			

Live Health Online

Live Health Online provides employees and their eligible dependents with 24/7/365 access to US board-certified physicians by online video. Live Health Online can diagnose, recommend treatment and prescribe medication when appropriate, including sinus problem, bronchitis, allergies, poison ivy, cold and flu symptoms, urinary tract infection, respiratory infection and more. The cost to participants for each physician consultation is $49, $80 for behavioral health therapist, $95 for psychologist, and $150 for psychiatrist initial consultation and $75 for follow up consultations.

This program is available to participants enrolled in an AEP health plan.

Wellness Program

Healthy living habits are an essential ingredient for healthy employees. For that reason, AEP sponsors a number of programs, including incentives, and initiatives designed to help employees achieve and maintain a healthy lifestyle. All active employees (regardless of whether they are enrolled in a medical plan) are eligible to participate in the following wellness programs along with spouses and domestic partners of active employees who are covered under an AEP medical plan. Rewards are offered for annual well check, dental exams, eye exam or skin cancer screening, and financial wellbeing coaching calls.

January 1, 2019 – December 31, 2019

GROUP DENTAL

DPPO option

Coverage Level	Participant Only	Participant + Spouse	Participant + Child(ren)	Participant + Family
Deductible (does not apply to preventive service)	$50/individual	$50/individual	$50/individual $150/family	$150/Family
Annual Maximum	$1,750 per covered person			
Coinsurance				
Preventive	100%			
Basic Services	80% after deductible			
Major Services	50% after deductible			
Orthodontia	50% up to a lifetime maximum of $1,750 per covered child			

DMO Option
A DMO option is available to employees who live within the same zip code area as a network DMO dentist. Similar to a medical Health Maintenance Organization (HMO), the DMO provides dental service through a group of network dentist. The DMO offers no deductibles or annual maximum, no co-pay for covered preventive services and low, fixed co-pays on other dental services.

The pre-tax monthly costs to active part-time employees are two and one-half times the monthly costs to active full-time employees. The monthly costs to certain grandfathered retirees and surviving dependents are the same as active employees. The monthly cost to most other retirees and eligible surviving dependents are 100% of the total cost of coverage.

Employee Monthly Contribution	Employee Only	Employee + Spouse	Employee + Child(ren)	Employee + Family
DPPO Plan	$12 08	$24 04	$32.38	$44 34
DMO Plan	$8 62	$17.24	$19 38	$28.00

VISION PLAN
AEP offers comprehensive employee paid vision coverage for eye care and vision correction. AEP's Comprehensive Vision Plan provides coverage through the Fidelity Security Life Insurance Company for eye exams, contacts (including disposable contacts) and eyeglass lenses and frames. It also offers discounts on special features, such as scratch-resistant lenses, laser eye surgery and more. Vision care discounts are also available through the Anthem medical plans.

Vision plan participants can take advantage of the discounted retinal-imaging exam option; in addition, members who have Type 1 or Type 2 diabetes are eligible for a follow-up exam and additional testing two times per benefit year.

Benefits are provided through EyeMed Vision Care's Access national network of private practice optometrists, ophthalmologists, opticians and retailers, such as Sears Optical, Target Optical, most Pearle Vision locations and LensCrafters.

Employee Contribution	Employee Only $ 6.82/mth	Employee + Spouse $12.93/mth	Employee + Child(ren) $13.61/mth	Employee + Family $20 41/mth

Employer Health & Welfare Benefit Contributions
For the Test Year Ending March 31, 2020

Benefit		SWEPCO Paid	
Medical	$	16,539,965.95	
Dental	$	543,525.22	
Group Life/AD&D	$	602,755.61	
Savings	$	6,297,788.37	(1)
Group LTD	$	1,105,350.00	(2)
Health & Welfare Totals	$	25,089,385.15	

(1) Includes 401k savings plan match
(2) Includes actual claims paid

Employer and Employee Healthcare Contribution Rates

	2020 Monthly Rates			
Active Employees	Single	Ee + Spouse	Ee + Child(ren)	Full Family
Full-Funding Rates				
HRA	$593.01	$1,413.45	$1,121.49	$1,941.93
H.S.A. Plus	$539.20	$1,285.19	$1,019.73	$1,765.72
H.S.A. Basic	$482.36	$1,149.70	$912.22	$1,579.56
Aetna Dental PPO	$28.90	$57.63	$83.55	$112.28
Aetna DHMO	$22.09	$44.19	$49.70	$71.80

	2020 Monthly Rates			
	Single	Ee + Spouse	Ee + Child(ren)	Full Family
Full-Time Active Employee Contribution Rates				
HRA	146.12	364.68	286.90	505.47
H.S.A. Plus	92.31	236.42	185.14	329.26
H.S.A. Basic	35.47	100.93	77.63	143.10
Aetna Dental PPO	12.08	24.04	34.51	46.58
Aetna DHMO	8.84	18.12	20.43	29.71

	2020 Monthly Rates			
	Single	Ee + Spouse	Ee + Child(ren)	Full Family
AEP Subsidy for Full-Time Active				
HRA	446.89	1,048.77	834.59	1,436.46
H.S.A. Plus	446.89	1,048.77	834.59	1,436.46
H.S.A. Basic	446.89	1,048.77	834.59	1,436.46
Aetna Dental PPO	16.82	33.59	49.04	65.70
Aetna DHMO	13.25	26.07	29.27	42.09

This Exhibit is CONFIDENTIAL PROTECTED MATERIAL pursuant to the terms of the Protective Order. The information is available for review by eligible parties at the Austin offices of American Electric Power Company (AEP), 400 West 15th Street, Suite 1520, Austin, Texas, (512) 481-4562, during normal business hours.

This Exhibit is CONFIDENTIAL PROTECTED MATERIAL pursuant to the terms of the Protective Order. The information is available for review by eligible parties at the Austin offices of American Electric Power Company (AEP), 400 West 15th Street, Suite 1520, Austin, Texas, (512) 481-4562, during normal business hours.

<u>EXECUTIVE SUMMARY OF RANDOLPH J. WARE</u>

Randolph J. Ware, Managing Director of Real Estate and Workplace Services for American Electric Power Service Corporation (AEPSC), addresses the costs incurred to provide real estate and workplace services to Southwestern Electric Power Company (SWEPCO or the Company).

Real Estate and Workplace Services is part of American Electric Power Company, Inc. (AEP) and its affiliates Chief Administrative Officer's organization and is the property management group for AEP, including SWEPCO. As the property management group for AEPSC, Real Estate and Workplace Services provides a wide range of building and office services to AEP operating companies, including SWEPCO, that are necessary to support reliable utility service.

The services provided by the Real Estate and Workplace Services fall into two broad categories – Workplace Services and Real Estate Asset Management. Workplace Services involve the provision of property management services and the operation and maintenance of office and service center facilities. Real Estate Asset Management services include the purchase and acquisition of land and buildings, management of property acquisition and disposal, property inspections, management and maintenance of real estate records, and management of income producing property.

Mr. Ware's testimony demonstrates that these services are essential to efficiently and securely support the operation and maintenance of facilities and land necessary to support utility service, to house the employees who provide that service, and to support office, fleet and storeroom activities in support of SWEPCO generation, transmission and distribution functions.

The total test year affiliate Real Estate and Workplace Services costs charged by AEPSC to SWEPCO are $4,520,785. To demonstrate the reasonableness of these costs, Mr. Ware applied a number of methods, including cost trends, budgeting controls, and benchmarking studies. For instance, Mr. Ware explains that Real Estate and Workplace Services' cost per square foot for SWEPCO's facilities was below the International Facility Management Association averages.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

SOUTHWESTERN ELECTRIC POWER COMPANY

FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF

RANDOLPH J. WARE

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Randolph J. Ware. I am Managing Director, Real Estate and Workplace Services for American Electric Power Service Corporation (AEPSC). My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND BUSINESS EXPERIENCE.

A. I earned an Associate in Applied Science degree in Electrical Engineering Technology in 1981 from Delmar College in Corpus Christi, Texas, a Bachelor of Science degree in Organizational Management in 2000 from Oklahoma Wesleyan in Bartlesville, Oklahoma, and a Master of Business Administration degree in 2004 from Ohio University in Athens, Ohio. I began my career with the former Central and South West Corporation (CSW) subsidiary Central Power & Light Company and its successor AEP Texas Central Company (TCC). I held a variety of positions with TCC and CSW including Supervisor, Telecommunication Operations and Manager, Telecommunication Voice & Video. In 2000, with the merger of CSW with American Electric Power Company, Inc. (AEP), I assumed the role of Telecommunications Business Services Manager for AEP. In March 2005, I became the Director, Fleet Services for AEP. In May 2007, I was named to a new role as Director, Business Logistics Business Operations for AEP. In June 2010, I then served as Senior Manager, Shared Service Business Services, subsequently, Senior Manager, Corporate Planning Analysis & Reporting. In May 2016, I was promoted to my current position.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE ANY REGULATORY AGENCY?

A. Yes. I filed testimony before the Public Utility Commission of Texas (PUC or the Commission) in Docket No. 46449, Southwestern Electric Power Company's request for approval to change rates. I also filed testimony before the PUC in Docket No. 49494, AEP Texas Inc.'s request for approval to change rates.

II. PURPOSE OF TESTIMONY

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING.

A. The purpose of my testimony is to:

1) Provide an overview and description of AEPSC Real Estate and Workplace Services; and

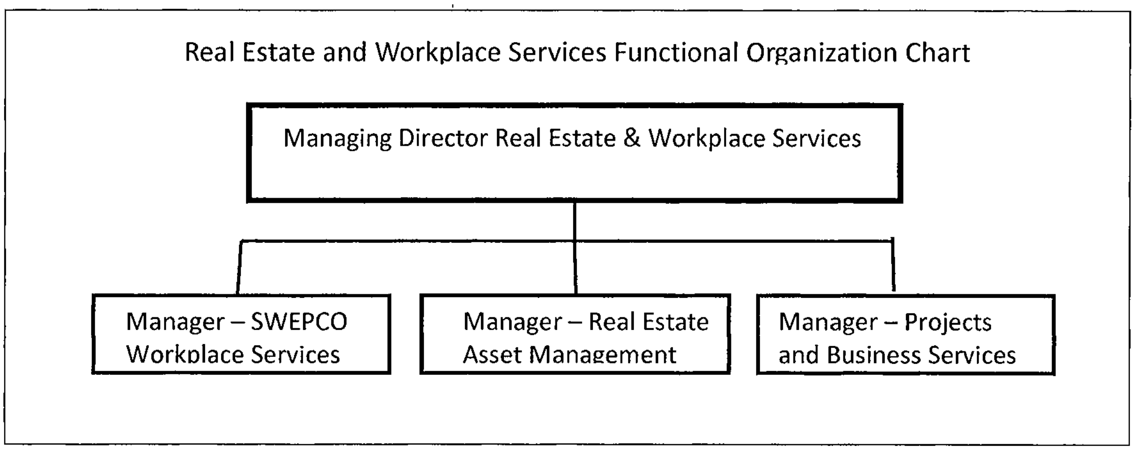
2) Demonstrate that the costs incurred to provide Real Estate and Workplace Services to Southwestern Electric Power Company (SWEPCO or the Company) are reasonable and necessary.

III. AEPSC REAL ESTATE AND WORKPLACE SERVICES ORGANIZATION AND SERVICES

·Q. HOW DOES REAL ESTATE AND WORKPLACE SERVICES FIT INTO AEP'S OVERALL STRUCTURE?

A. Real Estate and Workplace Services is part of the Chief Administrative Officer's organization and is the property management group for AEP, providing a wide range of real estate, building, and office services to AEP Operating Companies including

SWEPCO. The organizational chart below depicts the Real Estate and Workplace Services functions under my management that pertain to SWEPCO.



Real Estate and Workplace Services Functional Organization Chart

A. Description of Services

Q. PLEASE DESCRIBE THE SERVICES REAL ESTATE AND WORKPLACE SERVICES PROVIDES TO SWEPCO.

A. These services fall into two broad categories—Workplace Services and Real Estate Asset Management.

Workplace Services involves the operation and maintenance of office and service center facilities, including repairs, preventative maintenance, and grounds care. This work is generally the responsibility of SWEPCO Workplace Services, who are SWEPCO employees located in the Company's service area. When new workspace is needed, Workplace Services Projects and Business Services, who are AEPSC employees, manage the construction of new distribution, transmission and other buildings as well as major remodels. This includes the new facility's design, engineering, estimating, and contracting. For existing space, SWEPCO Workplace

Services provides furniture, workspace layout planning, and minor remodeling. This group also provides office relocation services.

Additionally, Workplace Services provides property management services, including:

- Print and high speed copy services; mail and supply services; administration of national contracts for office supplies, toner, paper and third-party courier services; and provision and maintenance of office equipment such as copier equipment and printers;
- Provision of audio/visual equipment; and
- Travel and meeting event planning services.

Real Estate Asset Management services include:

- Purchase and acquisition of land and buildings;
- Management of property acquisition and disposal;
- Leasing of office space or property from others;
- Management and maintenance of real estate records and payment of fees, including management of easement grants and licensee agreements;
- Property inspections;
- Negotiation and provision of necessary documents required for the removal, relocation or closure of public roads or other facilities as may be necessary for construction of Company facilities; and
- Management of land held for future use, forestlands and other land management initiatives as may be required.

Q. ARE THE SERVICES PROVIDED BY REAL ESTATE AND WORKPLACE SERVICES TO SWEPCO NECESSARY TO SUPPORT RELIABLE UTILITY SERVICE?

A. Yes, they are. SWEPCO cannot provide utility service without physical facilities to house its employees and the office supplies and services necessary to support the employees and maintain their work environment. In addition, SWEPCO has a responsibility to provide a safe working environment for employees, contractors and visitors, and must also strive to protect the physical security of equipment and property to ensure continued reliable service to SWEPCO's end use customers. These services are essential to efficiently and securely support the operation and maintenance of facilities and land necessary to support transmission and distribution services in the Southwest Power Pool, to house the employees who provide those services, and to support office activities essential to SWEPCO's business functions.

Q. IS THERE ANY DUPLICATION OF THE SERVICES PROVIDED BY AEPSC REAL ESTATE AND WORKPLACE SERVICES PERSONNEL AND SWEPCO EMPLOYEES?

A. No, there is not. SWEPCO Workplace Service employees focus on day-to-day maintenance and operation of facilities within SWEPCO's footprint. AEPSC employees provide other Real Estate and Workplace Services that can be performed in common for multiple AEP business units, such as administration of facility-related contracts for supplies and services.

B. Reasonableness and Necessity of Test Year Real Estate & Workplace Services Affiliate O&M Costs

Q. WHAT ARE SWEPCO'S TEST YEAR AFFILIATE OPERATIONS AND MAINTENANCE (O&M) COSTS FOR REAL ESTATE AND WORKPLACE SERVICES?

A. The total adjusted Test Year[1] affiliate Real Estate and Workplace Services O&M costs for AEPSC services charged to SWEPCO are $4,520,785.

Q. WHAT TYPES OF PROOF OF REASONABLENESS OF THESE COSTS DO YOU PRESENT IN THIS TESTIMONY?

[1] The Test Year is the twelve-month period ending March 31, 2020.

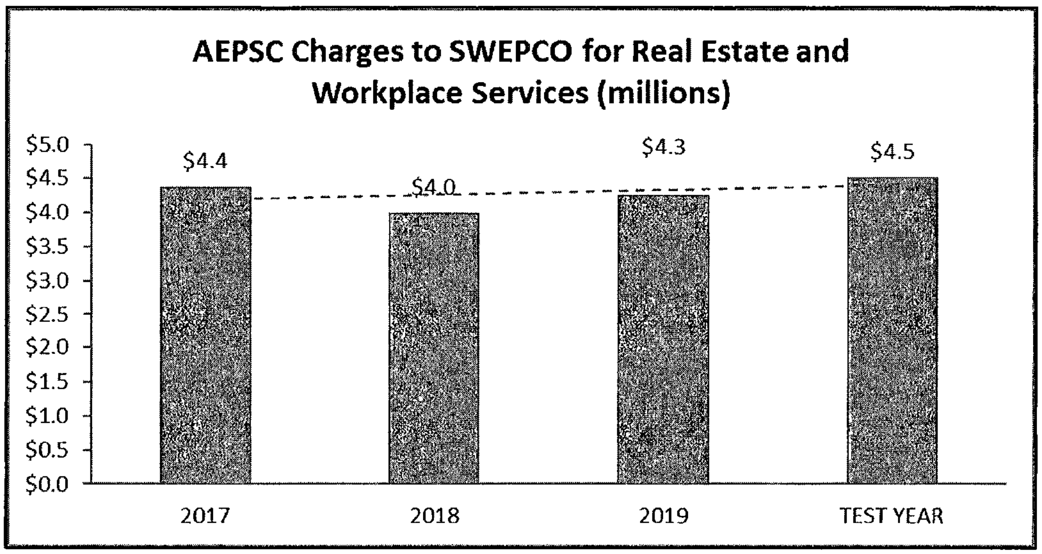
A. I have applied a number of methods, including cost trends, budget performance, and benchmarking studies. Each of these is discussed below.

1. Cost Trends and Budget Performance

Q. WHAT DO THE RECENT O&M TRENDS IN AEPSC CHARGES TO SWEPCO FOR REAL ESTATE AND WORKPLACE SERVICES DEMONSTRATE?

A. Table 1 below shows O&M cost trends for AEPSC billings to SWEPCO for 2017, 2018, 2019, and the Test Year. Costs have remained relatively steady over this period, primarily due to cost control measures put in place to minimize or eliminate cost increases.

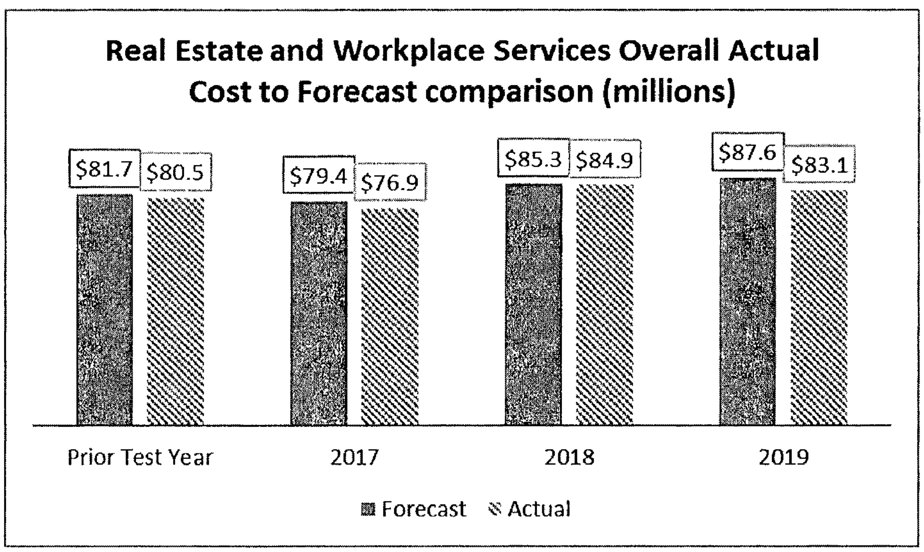
Table 1



Q. PLEASE DESCRIBE THE RECENT TREND OF OVERALL O&M COSTS FOR THE REAL ESTATE AND WORKPLACE SERVICES ORGANIZATION.

A. Overall O&M costs for the Real Estate and Workplace Services organization have remained at or near forecast as shown in Table 2 below. This result was achieved in spite of the addition of a new data center and new O&M processes to improve resiliency for mission-critical facilities that were added during this period. Costs were controlled through aggressive negotiation of contract services and improvements in O&M processes. Additionally, actual costs are below forecast as shown in Table 2 below due to new facilities constructed in the 2017 – 2019 period. Typically, new facilities have items repaired under warranty and require less maintenance in the first years of operations, before gradually increasing to a steady state level. Overall O&M costs are expected to increase above the 2019 actual levels going forward due to maintenance on recently constructed facilities reaching steady state and the addition of a backup data center and other mission critical facilities that are anticipated to continue. The impact to SWEPCO specifically is expected to remain steady, as shown in its recent cost trends, or increase in proportion to overall AEPSC cost as new facilities reach steady state on maintenance cost.

Table 2



2. Real Estate & Workplace Services Benchmarking

Q. HAVE REAL ESTATE AND WORKPLACE SERVICES COSTS AND PROCESSES BEEN BENCHMARKED AGAINST THOSE OF OTHER UTILITIES?

A. Yes. Real Estate and Workplace Services participates in the benchmark study performed by the International Facility Management Association (IFMA), one of the most well-recognized and respected benchmarking entities in this area. IFMA conducts an annual benchmarking study to provide comparative cost and process data across major companies to businesses involved in real estate and workplace services. These comparisons extend to facility-related costs across 32 major utilities. The most recent study is based on 2018 data and was completed in 2019. The study benchmarked both custodial and maintenance costs at data centers, headquarter buildings, office buildings and service centers. Other than energy costs, these categories represent the largest share of Real Estate and Workplace Services costs.

Q. WHAT WERE THE FINDINGS FROM THE MOST RECENT IFMA STUDY?

A. Real Estate and Workplace Services' cost per square foot for SWEPCO's facilities was below the IFMA average in headquarters and service center maintenance. These two facility types represent 87% of SWEPCO's total facilities square footage. SWEPCO's per-square-foot cost of office and service center custodial services is higher than the average and contributes to the cost difference between overall IFMA and SWEPCO costs-per-square-foot rates. This difference is largely the result of having multiple relatively small facilities spread out across a large geographic area and having to use multiple small service providers for custodial services. In comparison, the SWEPCO headquarters custodial cost is below the IFMA benchmark due to its relatively large square footage in a central location. Relatively small facilities have a favorable impact on maintenance cost, as these facilities are not as mechanically complex as large facilities. Generally, the categories of SWEPCO costs per square foot fall along the average of the IFMA benchmark for each of the categories.

Table 3 below provides more detail on the categories of the benchmark.

Table 3

2019 IFMA Benchmark		
	Cost/Sq. Ft.	
Category	**2018 IFMA Average**	**2018 SWEPCO**
Data Center Custodial	$1.50	$1.17
Data Center Maintenance	$6.28	$1.97
HDQ Custodial	$1.62	$1.10
HDQ Maintenance	$2.37	$1.48
Office Custodial	$1.17	$2.28
Office Maintenance	$1.66	$2.71
Service Center Custodial	$1.44	$2.51
Service Center Maintenance	$2.94	$1.83

Q. ARE THERE OTHER USEFUL BENCHMARKS FOR THIS AREA?

A. Yes. Each year, in-house printing costs, which include those from the SWEPCO print center, are benchmarked against external print providers. The table below details commonly ordered internal print jobs which AEP Printing Services used to request quotes from FedEx Kinko's in 2019. As with all AEP print centers, SWEPCO's print center manages costs by rightsizing both its workforce and equipment as well as utilizing national contracts to keep equipment and supply costs competitive. Table 4 below demonstrates that the use of SWEPCO's internal print center generally provides lower-cost servicing as compared to outside services as benchmarked.

Table 4[2]

Job Type	Description	Shreveport		Vendor Pricing		$ Difference		% Difference
BW1	No handwork. Includes in-line finishing	$	32.41	$	44.00	$	(11.59)	26%
BW2	Light handwork off-line	$	43.72	$	61.59	$	(17.87)	29%
BW3	Hand collating, off-line collator / stitching, binding (spiral, comb, tap, etc.) and assembling binders	$	3,055.17	$	2,006.13	$	1,049.04	-52%
BMX	Mostly black & white and some color printing	$	157.99	$	457.92	$	(299.93)	65%
CC1	No handwork. Includes in-line finishing	$	325.28	$	745.48	$	(420.20)	56%
CC2	Light handwork off-line	$	272.97	$	67.40	$	205.57	-305%
CC3	Hand collating, off-line collator / stitching, binding (spiral, comb, tap, etc.) and assembling binders	$	1,337.54	$	6,897.53	$	(5,559.99)	81%
CMX	Mostly color and some black & white printing	$	232.87	$	1,105.85	$	(872.98)	79%
BND	Spiral Binding only, no printing required	$	437.63	$	1,660.00	$	(1,222.37)	74%

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

[2] Table 4 – Legend: Print Center-Job Types

Print Center – Job Types	
BW	Black & White printing
BMX	Mixed printing; Black & White with some Color
CC	Color Printing
CMX	Mixed printing; Color with some Black & White
BND	Bindery

EXECUTIVE SUMMARY OF GREGORY A. FILIPKOWSKI

Gregory A. Filipkowski, Vice President, Information Technology for American Electric Power Service Corporation (AEPSC), is responsible for the system-wide development, operations, and support of American Electric Power Company, Inc.'s (AEP) computer systems. His responsibilities include providing information technology support for Southwestern Electric Power Company (SWEPCO) and all other AEP Operating Companies.

Mr. Filipkowski provides an overview of AEP's Information Technology organization, its staffing, and the services it provides. Specifically, Mr. Filipkowski explains how Information Technology services provided to SWEPCO are organized into information and operational technology-related services. Mr. Filipkowski describes how Information Technology's use of common centralized resources to meet common needs results in service delivery with the lowest reasonable cost and greatest efficiency. The centralized provision of information technology systems and services provides economies of scale by allowing affiliate companies, including SWEPCO, to share common investments in technology and skilled support staff.

Mr. Filipkowski describes Information Technology's mission to enable AEP's business success through effective and efficient information and operations management tools and services. This mission is carried out by Information Technology providing cost-effective services to enable SWEPCO and other AEP Operating Companies to fulfill their obligation to provide safe and reliable service to customers. His testimony establishes, among other things, that Information Technology provides essential support for the systems that allow SWEPCO to bill its customers, coordinate outage response and repair, and account for its costs, which enables virtually all SWEPCO employees to perform their everyday work.

The total adjusted test year costs billed to SWEPCO by Information Technology for information technology services are $15,476,237. To demonstrate the reasonableness and necessity of these charges, Mr. Filipkowski analyzes cost trends and budget performance, process improvements, full-time equivalent trends, cost-effective additions of services, and benchmarking studies. In particular, Mr. Filipkowski:

- concludes that Information Technology actual expenditures have remained within budget targets, and that the costs of providing Information Technology services to SWEPCO have increased slightly based on an increase in demand for application support, hardware purchases to support cyber security, replacement of personal computers that reached the end of their lifecycles, operational sustainability, and core business software;
- describes the types of oversight measures in place and the major process improvement initiatives implemented to ensure that Information Technology activities and services support SWEPCO's utility service in a cost-effective manner;
- describes the budgeting process and cost monitoring that occurs within the Information Technology organization;
- states that overall staffing levels have minimally increased, driven by large enterprise-wide capital projects, and explains how the as-needed use of specialized contractors helps to maintain an agile organization at a reasonable cost;
- concludes that Information Technology utilizes outsourcing in a targeted manner to optimize overall cost and performance;
- provides examples of how Information Technology has successfully added new capabilities despite the increased demand for information technology services while controlling its costs; and
- describes benchmarking data that shows AEP has reduced many of the costs for providing information technology services.

The total amount of Information Technology-related capital additions placed in service and included in SWEPCO's rate base since its last rate case is $88,282,524, the majority of which related to computer system installations and upgrades/enhancements used in SWEPCO business operations. Mr. Filipkowski describes how the costs of Information Technology capital projects are captured and tracked, and the process in place to ensure the costs of these capital projects are reasonable.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

SOUTHWESTERN ELECTRIC POWER COMPANY

FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF

GREGORY A. FILIPKOWSKI

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Gregory A. Filipkowski. I am Vice President, Information Technology for American Electric Power Service Corporation (AEPSC). My business address is 1 Riverside Plaza, Columbus, Ohio, 43215. I am responsible for the system-wide development, operations, and support of American Electric Power Company, Inc.'s (AEP) computer systems. This includes information technology support for Southwestern Electric Power Company (SWEPCO or the Company) and all other AEP Operating Companies.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND WORK EXPERIENCE.

A. I received a Bachelor of Science degree in Business Administration / Information Systems Management from The Ohio State University in Columbus, Ohio, in 1985.

Before joining AEP, I spent eight years as Vice President of Information Technology for the e-commerce and marketing division of Cendant Corporation, three years as a senior program manager for information technology projects at The Limited Inc., and over seven years in the financial services industry in senior technical staff roles supporting the trust business at Wachovia Bank in Winston Salem, North Carolina (now Wells Fargo), and at National City Bank in Cleveland, Ohio (now PNC Bank).

Since joining AEP in 2005, I have held several senior leadership roles in the Information Technology department, including Director of Enterprise Architecture, Director of Business Applications, and Managing Director of Information Technology Demand Management. In September 2017, I filled the role of Interim

Chief Information Technology Executive, and was subsequently named Vice President, Information Technology in August 2019, with responsibility for Information Technology Planning, Application Development and Support, Infrastructure Engineering and Operations, and Information Technology Risk Management. I lead the implementation of information technology strategy and standards, process improvements and standardization for information technology planning to align with business strategy, focusing on large program management and ensuring a culture for sustainable reliability.

Q. ARE YOU A MEMBER OF ANY INFORMATION TECHNOLOGY-RELATED GROUPS OR ASSOCIATIONS?

A. Yes, I am a member of the following associations devoted to information technology education, management, and innovation:

- Utility Information Technology Benchmark (UNITE) – A benchmarking group formed by the Southern Company to study enterprise Information Technology costs and use them to identify and share Information Technology best practices.
- Columbus Collaboratory L.L.C. (www.columbuscollaboratory.com) – The Columbus Collaboratory is a company that was formed with major companies in the Columbus, Ohio area (including Nationwide Insurance, Huntington Bank, L Brands, Cardinal Health, Ohio Health, and Battelle) to share resources to invest in shared emerging technology areas (*e.g.*, cyber-security, analytics and talent development). AEP is a charter member of this new company, and I am on the board of directors.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE OR PROVIDED WRITTEN TESTIMONY TO THE PUBLIC UTILITY COMMISSION OF TEXAS OR ANY OTHER REGULATORY BODY?

A. Yes. I previously provided written testimony to the Public Utility Commission of Texas for the application of AEP Texas Inc. for authority to change rates, Docket No. 49494.

II. PURPOSE OF TESTIMONY

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. My testimony has several purposes. First, I provide an overview of AEP's Information Technology organization, staffing, and services. In particular, I explain how information technology services provided to SWEPCO are organized into information and operations technology-related services. This information supports the cost analysis AEP Operating Companies use to understand their delivered technology services.

Second, I explain how Information Technology controls its costs for information and operations technology through budget, staffing, and process monitoring. In addition, I use our benchmarking studies to show that the Information Technology services and associated costs billed to SWEPCO are necessary and reasonable for SWEPCO to provide safe and reliable electric service to its customers. Information on the allocation and billing of costs is discussed in the testimony of SWEPCO witness Brian J. Frantz.

Finally, I show that the Information Technology capital costs billed to SWEPCO are necessary and reasonable for SWEPCO to gain efficiency and effectiveness.

III. ORGANIZATION OF INFORMATION TECHNOLOGY

Q. WITH REGARD TO THE UTILITY OPERATIONS OF SWEPCO AND THE OTHER AEP OPERATING COMPANIES, WHAT DOES INFORMATION TECHNOLOGY CONSIDER TO BE ITS MISSION?

A. The mission of Information Technology is to enable AEP's business success and corporate priorities by partnering to deliver effective and efficient information management tools and services, thus enabling AEP Operating Companies to fulfill their mission of providing safe and reliable electric service to their customers.

Q. PLEASE PROVIDE SOME EXAMPLES OF THE INFORMATION TECHNOLOGY SERVICES PROVIDED TO SWEPCO.

A. In the course of providing service, SWEPCO employees and contractors depend on many computerized information systems, which are provided and supported by the Information Technology organization. For example, in the event of a power outage, customer service representatives use automated systems to help answer calls, identify affected customers, and record information related to the affected premises, which is then communicated to distribution system dispatchers.

SWEPCO employees also use several systems for their daily work and storm restoration. These systems integrate with one another and allow for the sending of orders to field operations employees and communications to customers. SWEPCO operations employees use these automated systems to monitor and process meter reads and events to meet market service level agreements. Additionally, employees use automated systems to support accurate and timely billing.

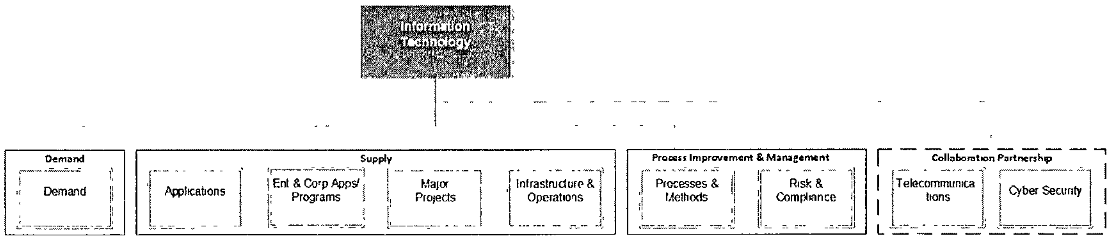
SWEPCO distribution employees rely on a set of applications, including PowerOn Restore, to collect, manage, dispatch, and track electrical outages status and repairs. Outage repair orders are dispatched through work management applications using an 800MHz radio system, ultimately arriving on mobile data computers kept in service trucks and the Spectrum application. The Spectrum application resides on the mobile data computers and is used by service and line crews to retrieve, update, and complete work requests, electric outage orders, and preventative maintenance orders. The outage applications also provide outage status email and text messaging to allow customers to stay better informed, especially during emergencies.

Given the scope, scale, and complexity of their operations and their heavy dependence on information and operations technology systems and services, SWEPCO and its customers benefit from the reasonable cost of secure and reliable information technology and support services provided by Information Technology to all of AEP's affiliate companies and organizations.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW INFORMATION TECHNOLOGY IS ORGANIZED.

A. Information Technology is one of six organizations aligned under the Chief Administration Office. All information technology services are centrally managed. Table 1 below depicts the Information Technology organizational structure.

Table 1



Q. HAVE THERE BEEN ANY RECENT ORGANIZATIONAL CHANGES IN INFORMATION TECHNOLOGY?

A. Yes. In September 2015, the Cyber Risk and Security Services functions were aligned under the newly created corporate Chief Security Officer but continue to coordinate directly with Information Technology to protect information and operations technology assets. Physical and Cyber Security are addressed further in the testimony of SWEPCO witness Stephen Swick.

In early 2016, the Cornerstone program (now called Enterprise & Corporate Applications/Programs) was established to enable continuous improvement and efficient business processes using a well-integrated software platform. The program is a multiple-year effort required to renew large corporate enterprise systems such as: work and asset management, reporting, human resources, finance, and customer information and relationship management systems. The Enterprise & Corporate Applications function (aligned under Cornerstone in late 2018) is focused on application development and ongoing support services for enterprise-wide and corporate business needs.

In late 2016, the Risk Management function was established to facilitate enterprise-wide identification and mitigation of Information Technology-related risk, including risks related to Sarbanes-Oxley and North American Electric Reliability Corporation critical infrastructure protection (NERC CIP) regulatory requirements, contractual obligations (software licenses, vendor relationships), resiliency functions (recovery operations, alignment with business continuity recovery time expectations, failover testing), and Information Technology and Telecommunications assets, processes, people, facilities, and third-party relationships.

In late 2017, the Telecommunications functions were aligned directly under the Chief Administrative Officer but continue to coordinate directly with Information Technology to support a network that is available 24x7 to provide access to applications, e-mail, data, internet, supervisory control and data acquisition (SCADA), radio, telephone and wireless services. Telecommunications is addressed further in the testimony of SWEPCO witness Stacey Stoffer.

In late 2018, the Information Technology Major Projects function was established to manage and execute large-scale enterprise-wide Information Technology projects such as the Groveport Data Center and End User Computing. This function also works on large-scale initiatives such as the Infrastructure Technology Modernization Program (ITMP), which is an ongoing initiative to identify software applications on older, unsupported platforms and remediate or retire them to avoid work disruptions and enhance security.

Q. WHAT IS THE PURPOSE OF THE INFORMATION TECHNOLOGY ORGANIZATIONAL STRUCTURE?

A. The purpose of this organizational structure is to streamline access to the Information Technology organization, reduce complexity in providing solutions, and increase the flexibility and agility of Information Technology to respond to AEP's business needs. Information Technology uses common centralized resources to meet common needs resulting in delivery with the lowest reasonable cost and greatest efficiency. AEP Operating Companies collaborate to identify business unit requirements that are communicated to Information Technology. The business units focus on consistent solutions for shared requirements and unique solutions where necessary for individual operating companies.

Q. WHAT ARE THE FUNCTIONS OF EACH OF THE INFORMATION TECHNOLOGY ORGANIZATIONS?

A. <u>Demand Management</u>:

The Demand Management team is responsible for defining and maintaining the portfolio and investment plans of all Information Technology solutions required to run a business unit's and an operating company's operations. The team is responsible for aligning business unit strategic plans with technology strategic plans, governance and prioritization of projects, and managing short and long term financial plans.

<u>Business Applications:</u>

The Business Applications team develops software based on defined requirements and specifications to meet the transmission, distribution, and customer service business needs.

The application support team within Business Applications performs proactive and reactive application support activities to ensure effective application operations. In the event of an application failure, the support team collaborates with the

Infrastructure & Operations and Telecommunications teams to perform root cause analysis and remediation.

Enterprise & Corporate Applications/Programs:

The Enterprise & Corporate Applications/Programs team is responsible for implementing a ten-year initiative to renew large corporate enterprise systems, as well as application development and ongoing support services for enterprise-wide and corporate business needs.

Major Projects:

The Major Projects team manages and executes large-scale enterprise-wide Information Technology projects and initiatives.

Infrastructure & Operations:

The Infrastructure & Operations team deploys cost-effective infrastructure solutions to enable the delivery of business applications, supporting all of the computing and storage platforms in AEP's primary and backup data centers.

The Service Desk team within Infrastructure & Operations provides primary and secondary (more complex) support for individual computing devices, hardware and software, and 24x7 monitoring of AEP's information technology infrastructure.

The Cloud Transformation team is focused on AEP's cloud strategy and implementation, in addition to supporting the AEP Digital Charge environment.

The Enterprise Architecture team is responsible for defining and maintaining the technology product standards of all information and operations technology solutions required to run the business units and Operating Companies, including technology governance, research and the review of obsolete technologies to establish remediation plans.

Processes & Methods:

The Processes & Methods team supports successful delivery of information technology processes and projects. The team measures and monitors project delivery metrics for improvement opportunities and manages project methodologies and the enabling software applications. The team also supports development of project manager skills and competencies within the Information Technology organization. In addition, the team ensures effective and efficient execution of daily Information Technology processes (change, problem, incident, knowledge, etc. as defined by Information Technology Service Management and Information Technology Infrastructure Library).

Risk Management:

The Risk Management team facilitates enterprise-wide identification and mitigation of Information Technology-related risk (as described above).

Q. WHY HAS AEP CHOSEN TO TAKE A CENTRALIZED APPROACH TO THE PROVISION OF INFORMATION TECHNOLOGY SERVICES?

A. Because most business processes are common across SWEPCO and other AEP Operating Companies, a centralized model creates the opportunity to share systems and associated support costs. The centralized provision of information technology systems and services provides economies of scale by allowing affiliate companies to share common investments in technology and skilled support staff whenever possible. For example, the AEP data centers serve all AEP affiliates and Operating Companies, including SWEPCO. This allows for optimal use of resources, including real estate, hardware and software, and support staff. In addition, consolidated acquisition of hardware and software purchases qualifies AEP for volume discounts on those purchases.

Q. WHAT IS THE COMPOSITION OF INFORMATION TECHNOLOGY'S WORKFORCE?

A. The central management and leadership of Information Technology, as well as the information technology-related work to support the Operating Companies, is carried out by a combination of service companies and third-party contractors.

As of March 31, 2020, the Information Technology workforce was composed of a total of 596 service company employees and 364 staff augmentation contractors as described later in my testimony.

Q. ARE THE SERVICES PROVIDED BY INFORMATION TECHNOLOGY TO SWEPCO NECESSARY FOR SWEPCO TO PROVIDE RELIABLE UTILITY SERVICE?

A. Yes. Information Technology provides essential support for the systems that allow SWEPCO to read meters, coordinate outage response and repair, perform system operation, and account for its costs, which enables virtually all SWEPCO employees to perform their work as effectively and efficiently as possible. Each service provided to SWEPCO is essential to its mission of providing safe and reliable utility service in a cost-effective manner.

Q. ARE INFORMATION TECHNOLOGY SERVICES DUPLICATED BY PERSONNEL OUTSIDE INFORMATION TECHNOLOGY, WITHIN SWEPCO OR ANY OTHER ENTITY?

A. No. There is no duplication of the work performed by Information Technology in SWEPCO or any other AEP Business Unit or other entity.

IV. REASONABLENESS OF SWEPCO'S AFFILIATE INFORMATION TECHNOLOGY COSTS

Q. WHAT ARE THE TEST YEAR AFFILIATE INFORMATION TECHNOLOGY OPERATIONS AND MAINTENANCE (O&M) COSTS BILLED TO SWEPCO BY INFORMATION TECHNOLOGY?

A. The total adjusted Test Year[1] affiliate O&M information technology costs for AEPSC services for SWEPCO are $15,476,237.

Q. WHAT TYPES OF PROOF OF REASONABLENESS OF THESE COSTS DO YOU PRESENT IN THIS TESTIMONY?

A. I have applied a number of methods for demonstrating the reasonableness of these affiliate costs, including cost trends and budget performance, process improvements, budgeting controls, full-time equivalent (FTE) trends, cost-effective additions of services and benchmarking studies. Each of these is discussed below.

A. Cost Trends and Budget Performance

Q. HOW HAVE INFORMATION TECHNOLOGY CHARGES BEEN TRENDING OVER THE LAST FEW YEARS FOR SWEPCO?

[1] The Test Year includes the twelve month period ending March 31,2020.

A. Table 2 below sets forth SWEPCO charges for the calendar years 2017, 2018, and 2019, as well as the Test Year.

Table 2

	2017	2018	2019	Test Year
SWEPCO	$12,320,340	$13,996,621	$15,075,680	$15,476,237

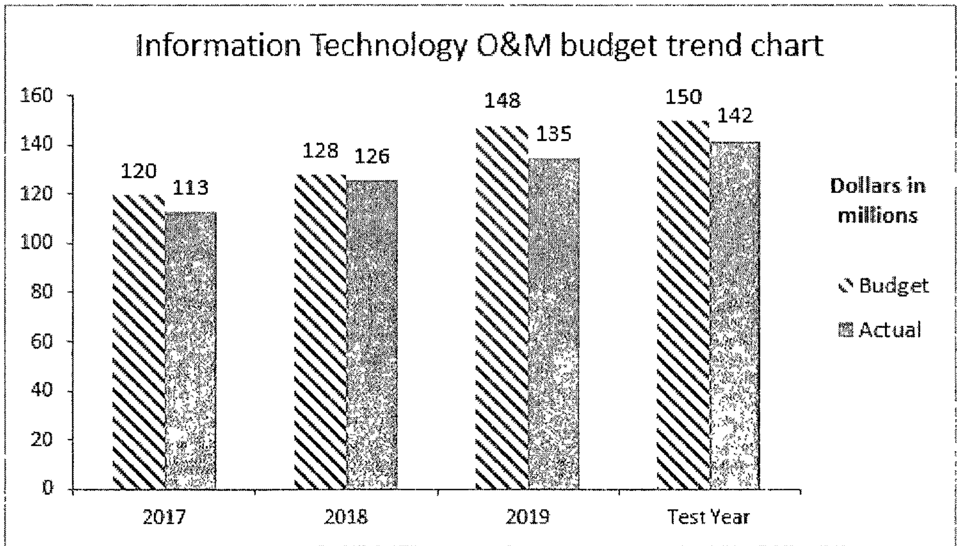
Q. WHAT ARE SOME OF THE PRIMARY REASONS FOR THESE TRENDS?

A. As can be seen in Table 2 above, the cost of providing Information Technology services to SWEPCO increased slightly each year due to an increase in demand for Information Technology services on a year-to-year basis for application support. As business requirements change, application support efforts vary and therefore the costs incurred by each business unit and Operating Company will fluctuate. The increase is also attributed to hardware purchases in support of a cyber-attack resiliency implementation, personal computer lifecycle of over 18,000 end user workstations, as well as operational sustainability investments and core business software spend.

Q. HOW HAS INFORMATION TECHNOLOGY PERFORMED OVERALL IN TERMS OF BUDGETED TO ACTUAL EXPENSES?

A. As you can see in Table 3 below, Information Technology continues to remain within budget targets. Beginning in 2019, the budget increased to account for the operational expenses associated with the building of a second data center, called Groveport Data Center, which was critical to help ensure reliable and sustainable operations. In 2014, after a major data center outage, AEP prepared a long-term plan to build a new production hosting data center for all corporate applications hosted on premise. The plan also included a replacement to the Disaster Recovery data center that was ending its useful life. After the primary data center went into production, AEP began planning for the second (backup) data center. In 2019, the majority of expenses for this data center were incurred and operationalized, and the data center went into full operation in February 2020. Groveport Data Center only hosts business critical applications, reducing the overall investment for recovery operations.

Table 3



Q. WHAT DO YOU CONCLUDE FROM THESE COST TRENDS?

A. Information Technology is prudently and consistently meeting its budget targets, while still providing additional capabilities at the same time as it continuously looks for more efficient and effective ways to provide services.

B. Budgeting Controls

Q. WHAT TYPE OF BUDGETING PROCESS IS EMPLOYED WITH REGARD TO INFORMATION TECHNOLOGY O&M AND CAPITAL COSTS?

A. Budgets are developed annually for each AEP organization. The current year budget is compared to actual spend on a monthly basis and year-end projections are revised as appropriate. The budget is created by considering corporate and Operating Company financial and business requirements, operational and cost benchmarks, and market conditions relevant to AEP's overall electric utility business.

Q. ONCE BUDGETS ARE IN PLACE, WHAT FURTHER COST MONITORING OCCURS?

A. Within Information Technology, managers at every level are responsible for monitoring and controlling budgets that are assigned to their respective teams or projects. Proposals for new projects are reviewed weekly by the direct reports to the Vice President, Information Technology to ensure the work is necessary and can be reasonably funded. Information Technology senior management reviews all capital proposals to ensure:

- projects are aligned with corporate initiatives and are properly budgeted and funded;
- existing technology is utilized wherever possible as opposed to building or buying new technology;
- business cases have clear justifications for new technology or enhancements;
- duplicate systems are not built; and
- the Information Technology management team works with the Vice President, Information Technology as necessary to address any exceptional requests (*e.g.*, temporary staffing, training opportunities, etc.).

<u>C. Process Improvements</u>

Q. WHAT ARE THE MAJOR INFORMATION TECHNOLOGY PROCESS IMPROVEMENT EFFORTS TO ENSURE THAT INFORMATION

TECHNOLOGY'S SERVICES SUPPORT SWEPCO'S UTILITY SERVICE IN A COST-EFFECTIVE MANNER?

A. In 2016, AEP deployed a production big data and analytics platform to store interval and event data collected from meters. The big data platform is being leveraged to develop and deploy analytics that predict asset failure, detect problems with meter configuration, and identify potential fraud. Many of these algorithms are automatically generating service orders for the field to inspect or maintain meters. The analytics have resulted in improved reliability, reduced costs, and increased revenue.

In 2017, AEP began to explore new digital technologies with the potential benefit to contain costs. One of those technologies is Robotic Process Automation (RPA). RPA tools offered on the market today allow for 24x7 automation of well-defined repetitive processes. When implemented for the appropriate process, RPA enables employees to focus on higher value work. AEP has implemented multiple automations and continues to learn how to leverage the highest value from this technology and determine what use cases will provide the most benefit for AEP, including SWEPCO.

In 2017, a dedicated Information Technology Continuous Improvement (ITCI) function was formed with the responsibility for the development of Information Technology's capability to sustain, improve and roll out the lean management system, with an initial focus on the Demand to Delivery process or value stream. The achieved goal of the initial value stream was to transform and continually improve the value and experience provided from ideation to reliable solution delivery.

Since the introduction of the ITCI function, the scope of lean services has expanded beyond the original Demand to Delivery value stream to introduce lean continuous improvement to application support and infrastructure, with multiple teams adopting the lean management system and continually improving standard work, visual management, and metrics.

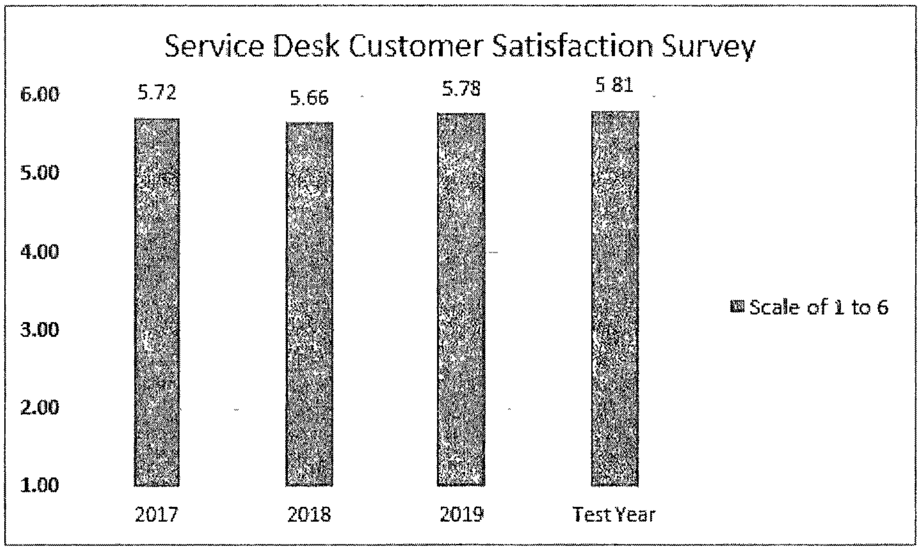
Q. HOW DOES INFORMATION TECHNOLOGY ENSURE THAT EFFECTIVE SERVICES ARE DELIVERED TO SWEPCO?

A. Information Technology monitors the efficiency, effectiveness, and quality of delivered services through surveys (Service Desk call satisfaction and post-project surveys) and service level tracking, including measures such as application and network availability, resolution of calls into the Service Desk, and successful completion of projects and infrastructure programs. On a daily, weekly, and/or monthly basis, huddles are conducted across Information Technology to monitor important performance measures and to ensure corrective actions are taken where necessary. Our emphasis on performance measurement has supported our continuous improvement mindset throughout the organization.

The Service Desk serves as the Information Technology entry point for issues and work requests. Our process improvements have allowed the Service Desk to keep performance metrics at an acceptable level. For example, 'first call resolution' at the Service Desk is 74% compared to a 2019 industry benchmark median of 73% (I cover benchmarking later in my testimony).

Table 4 below highlights Information Technology's internal customer satisfaction performance on the Service Desk. On average, 75% of internal customers who contact the Service Desk are surveyed each month, including AEPSC, SWEPCO and all other Operating Company employees. The team's average performance is 5.74 on a 6-point scale over the years indicated.

Table 4



Information Technology measures project internal customer satisfaction based on the average customer rating on closed projects and on the Net Promoter Score (NPS). As of the end of the Test Year, Information Technology's average customer rating was slightly above 91% (with a targeted breakthrough objective of meeting or exceeding 90%), and NPS was 80 (exceeding a 'world class' standard of 70). These results are reviewed monthly by project delivery directors to identify potential improvement opportunities.

In addition to customer ratings, class 2 estimating success for closed projects is another measure that demonstrates the efficiency, effectiveness, and quality of our services. As of the end of the Test Year application development projects were at or below budget tolerance 97% of the time. Additional opportunities for improvement are pursued via lean problem assessment techniques for all project estimates falling outside the targeted range of accuracy.

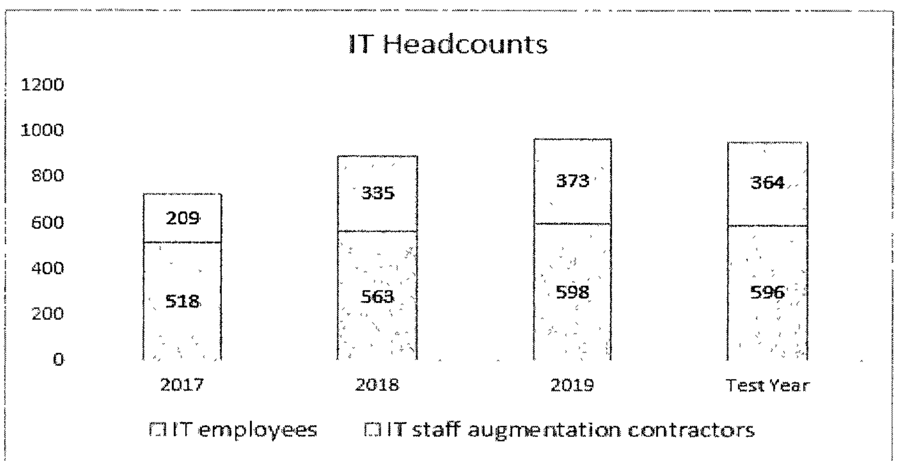
In order to influence a project outcome earlier in the process, we also provide opportunities for the sponsors of in-flight projects to evaluate and request a meeting with Information Technology leadership at monthly intervals regarding the quality of services rendered.

D. FTE Trends

Q. WHAT ARE THE STAFFING TRENDS FOR INFORMATION TECHNOLOGY?

A. Table 5 below depicts staff levels (including AEP employees and staff augmentation contractors). The table shows minimal employee increases (6 – 9% each year), driven by large enterprise-wide capital projects. The contractor headcounts increased at a higher rate (11 – 60% each year), driven by enterprise-wide capital projects and the intentional decisions made to augment staff versus filling with a full-time employee and to fluctuate staff levels in response to the number of projects in progress.

Table 5



Q. CAN YOU EXPLAIN THE USE OF CONTRACTORS WITHIN INFORMATION TECHNOLOGY?

A. Information Technology leverages staff augmentation contractors for development projects, as well as testing and project planning, in order for our workforce to increase and/or decrease to support the fluctuating (primarily capital) demands. Additionally, contractors are utilized for specialized niche skills that also fluctuate with project demands. Examples of niche skills include: Documentum, WebMethods, ServiceNow, Business Objects, Informatica, Install/1 (used by Marketing Accounting and Customer Service System (MACSS)), PeopleSoft, PowerPlant and LoadRunner. Augmenting staff on an as-needed basis helps to maintain an agile organization at a reasonable cost by rotating specialized contractors out of the organization when their project assignments are complete.

Through Information Technology's Preferred Vendor Program, all contractor positions are competitively bid through vendors that agree to participate in our rebate program to cover onboarding expenses (based on spending thresholds) and overtime savings.

E. Outsourcing

Q. HOW DOES OUTSOURCING PROVIDE A MEANS TO CONTROL INFORMATION TECHNOLOGY COSTS?

A. Information Technology uses several forms of outsourcing to control and reduce costs while maintaining or improving operational efficiency and effectiveness.

For narrowly defined, repeatable processes, Information Technology utilizes outsourcing in the following ways:

- Information Technology usually relies on original equipment manufacturers (OEMs) or third party value-added resellers for maintenance of hardware assets. An example of outsourced hardware maintenance is our use of Pomeroy LLC. Information Technology purchases personal computer assets through Pomeroy, and the maintenance of the PCs is included in the cost. Pomeroy is responsible for the OEM warranty work. Pomeroy uses a network of authorized warranty service technicians who travel to AEP's various locations to perform repair services.

- In some cases, application support and maintenance can be provided by a third party at a lower cost than the software licensor. An example of outsourced application maintenance is our use of Rimini Street for SAP Business Objects (reporting and business intelligence) support. Rimini Street provides support at approximately 50% of the cost for the same services from the licensor of the software.

- In some cases, AEP will subscribe for the use of an application 'off premises' rather than licensing the software to run the application 'on premises.' This business model is commonly referred to as Software as a Service (SaaS). Frequently, a SaaS solution is less expensive because the application service provider provides the software application as well as the hardware, personnel, and support. An example of a SaaS solution is our subscription to Kenexa for Enterprise Talent Management (recruiting).

- Operating system support is available exclusively from the operating system licensor. For example, AEP contracts with Microsoft for Windows operating system support and with IBM for AIX (UNIX) operating system support.

- Application support (for a select set of applications) for incidents that have well-documented solutions and require minimal technical expertise and business knowledge has been outsourced to Capgemini.

For more complex support and, occasionally, projects to develop new capabilities, Information Technology utilizes outsourcing in the following ways:

- Application support (for a select set of applications) that requires deeper technical expertise and business knowledge is partially outsourced to Capgemini.

- In some cases, AEP will contract third party service providers with a specialized expertise to assist with the development and implementation of new applications or functionality. Since these projects have defined start and end dates, it is more cost-effective in the long run for AEP to contract for specialized resources than to hire full-time employees. EY (Asset Management), Pillar (mobile application), and Red Clay Consulting (Oracle Meter Data Management System upgrade) are examples of firms AEP is using for limited, specialized services.

Q. HOW DOES INFORMATION TECHNOLOGY ENSURE THAT ITS USE OF OUTSOURCING IS COST-EFFECTIVE?

A. Information Technology uses competitive bidding, preferred vendor pricing, fixed cost contracts, and volume discounts for all types of outsourced services. Contract negotiation processes that include market benchmarks and "best and final" requests ensure that all products and services are procured at competitive rates. Periodic contract reviews, driven by the annual budget cycle and contract renewal dates, trigger lease and license renewal negotiations and ensure timely marketplace opportunities to improve service or reduce costs.

Q. WHAT DO YOU CONCLUDE FROM THE ABOVE INFORMATION REGARDING THE USE OF OUTSOURCING?

A. Information Technology utilizes outsourcing in a targeted manner to optimize overall cost and performance using a mix of external capabilities and firms (to encourage competition). Each outsourcing opportunity is carefully evaluated to ensure it provides AEP with a lower cost and equal or higher level of service than an equivalent internal solution or team.

F. Cost-Effectiveness

Q. HOW HAS THE INCREASED DEMAND FOR INFORMATION TECHNOLOGY SERVICES AFFECTED INFORMATION TECHNOLOGY COSTS?

A. Despite increased demand for information technology services, we have successfully added new capabilities while controlling our costs (see Table 3 budget versus actuals earlier in my testimony). For example: